# Zscaler Analyst Day 2021

January 11, 2021

# Agenda

**Welcome**
Bill Choi, SVP of Investor Relations & Strategic Finance

**Vision and Strategy For Zero Trust Exchange**
Jay Chaudhry, CEO, Chairman and Founder

**Leading With Innovation and Cloud Scale**
Dr. Amit Sinha, CTO & President of R&D, Operations, Customer Service
Patrick Foxhoven, CIO & EVP, Emerging Technologies

**Break**

**Scaling Go-to-market**
Dali Rajic, President Go-to-Market and CRO
Chris Kozup, CMO

**Investing For Growth In Large Serviceable Market**
Remo Canessa, CFO

**Q&A**

# Safe Harbor

**Forward-Looking Statements**

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This presentation contains forward-looking statements. All statements other than statements of historical fact, including statements regarding our planned products and upgrades, business strategy and plans and objectives of management for future operations of Zscaler are forward-looking statements. These statements involve known and a significant number of unknown risks, uncertainties, assumptions and other factors that could cause results to differ materially from statements made in this message, including any performance or achievements expressed or implied by the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment, and new risks may emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results or outcomes to differ materially from those contained in any forward-looking statements we may make, including but not limited to the duration and global impact of COVID-19 on our business, operations and financial results and the economy in general; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner. Additional risks and uncertainties that could affect our financial and operating results are included in our most recent filings with the Securities and Exchange Commission ("SEC").  You can locate these reports though our website at http://ir.zscaler.com or on the SEC website at www.sec.gov.

In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "continues," "contemplate," "could," "estimate," "expect," "explore," "intend," "likely," "may," "plan," "potential," "predict," "project," "should," "target," "will" or "would" or the negative of these terms or other similar words. Zscaler based these forward-looking statements largely on its current expectations and projections about future events that it believes may affect its business. Actual outcomes and results may differ materially from those contemplated by these forward-looking statements. All forward-looking statements in this message are based on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

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# Vision and Strategy
# for Zero Trust Exchange

Jay Chaudhry,
CEO, Chairman and Founder

# Key Messages

**01**  A **leader in cloud security** enabling new zero-trust architecture to protect the hyperconnected world of users, customers, devices and workloads

**02**  Big **audacious goal** to become the strategic business policy and security enforcement platform for **200 million** users, **100 million** workloads and billions of OT/IoT devices

**03**  **Sustained innovation engine** to drive competitive differentiation and long-term growth

**04**  Built a go-to-market machine that can scale **strategic customer engagements** to drive measurable ROI for digital transformation

**05**  Leadership team that promotes **open ideas and execution-oriented culture** with the ability to attract, develop and support passionate people that want to make a difference

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# Leading the World of Zero Trust Cloud Security

## Driving customer[1] value...

**>4,500**
Customers

**>450**
G2K customers

**>20 million**
Licensed Seats

**76 NPS**
vs. 30 SaaS
Company Avg.

## at an unparalleled scale[2] …

**>150**
Data centers
globally

**150B**
Transactions per day
>10x Google

**7 Billion**
Security incidents &
policy violations
prevented per day

**2.7**
Support tickets per
billion transactions

## while delivering growth[3]

**64%**
Billings growth
YoY

**52%**
Revenue growth
YoY

**122%**
Dollar-based
NRR

**14%**
Operating
Margin

1) Total customers, Forbes Global 2000 customers, licensed user seats and Net Promoter Score as of FY'20 ending July 31, 2020.
2) Total number of public data centers, transactions per day, policy and incident prevention per day and support ticket per billion transactions as of December 2020.
3) Billings growth year-over-year, revenue growth year-over-year, dollar-based net retention rate (NRR) and non-GAAP operating margin for FQ1'21.

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# Securing Any-to-Any Connectivity in Hyperconnected World of Cloud/Mobile

# OUR MISSION

## Make the cloud a safe place to do business and enjoyable for users.

Internet is the new network, it can't be secured

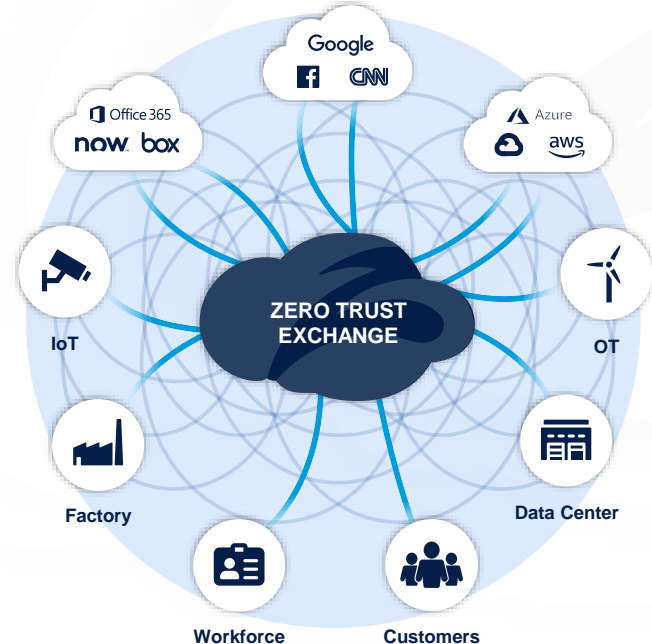The cloud and data centers are simply destinations

**Securely connect, users, devices and apps using business policies over any network**

Any-to-Any connectivity**:**

- User to App
- App to App
- Connected IoT/OT

**Digital Enterprise**
Protecting Users and Data, not the Network

**Zero Trust Architecture**

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# Our Audacious Goal: Securing the Next…

## 200M Users + 100M Workloads

### Customers

**New Customers**
New relationships
in existing verticals

**Upsell**
Increase penetration with
existing customers

### Platform

**Technology Innovation**
New platform solutions
to secure any connectivity:
Users, Devices & Workloads

**Expanded Functionality**
Drive leadership in the space and
improve core offering

### New Markets

**New Geographies**
Growing presence in
Japan and LatAm

**New Segments**
Expand to smaller
enterprises and Federal vertical

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# Secular Tailwinds Fueling Progress Towards Our Audacious Goal

**5G** — Enabling safe edge computing

**IoT/OT** — Bring zero-trust to IoT/OT

**IaaS/ Public Cloud (Azure / AWS)** — Secure cloud workload, app-to-app communication

**Work from Anywhere** — Fast and secure access to applications

**Direct-to-Cloud Network Transformation** — Secures local breakouts that SD-WAN provides

**Internet / SaaS Office 365** — Secure & fast access

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# Strategic Objectives | Continue to Win in our Markets

**Market Leadership**

**Technology Differentiation**

**Operational Excellence**

**Attract & Develop Talent**

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## Market Leadership
# Recognized Leader in Security

### Industry Leader

**10** years in a row **Gartner MQ Leader** In **Secure Web Gateway**

SWG solutions include CASB, zero trust network access, FWaaS and remote browser isolation

### The Only Leader

Have you seen a vendor map like this? Zscaler is now the **only leader** in Gartner's MQ

### SWG requires Proxy architecture

Firewall vendors were not considered due to lack of **proxy architecture**: Firewalls are designed to build a moat around the castle, wrong architecture for securing users

Source: Gartner (December 2020)

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# Market Leadership
## Accelerating Digital Transformation Across All Industries

| Protection Across Countries | Locations Protected | Users Protected | Office 365 Monthly Traffic |
|---|---|---|---|
| ↑ 186  *DHL* | ↑ 30,000  THE CHURCH OF JESUS CHRIST OF LATTER-DAY SAINTS | ↑ 1.3M  MCNC | ↑ 2.0 PB  SIEMENS |

## All Traffic – All Users – All Locations[1]

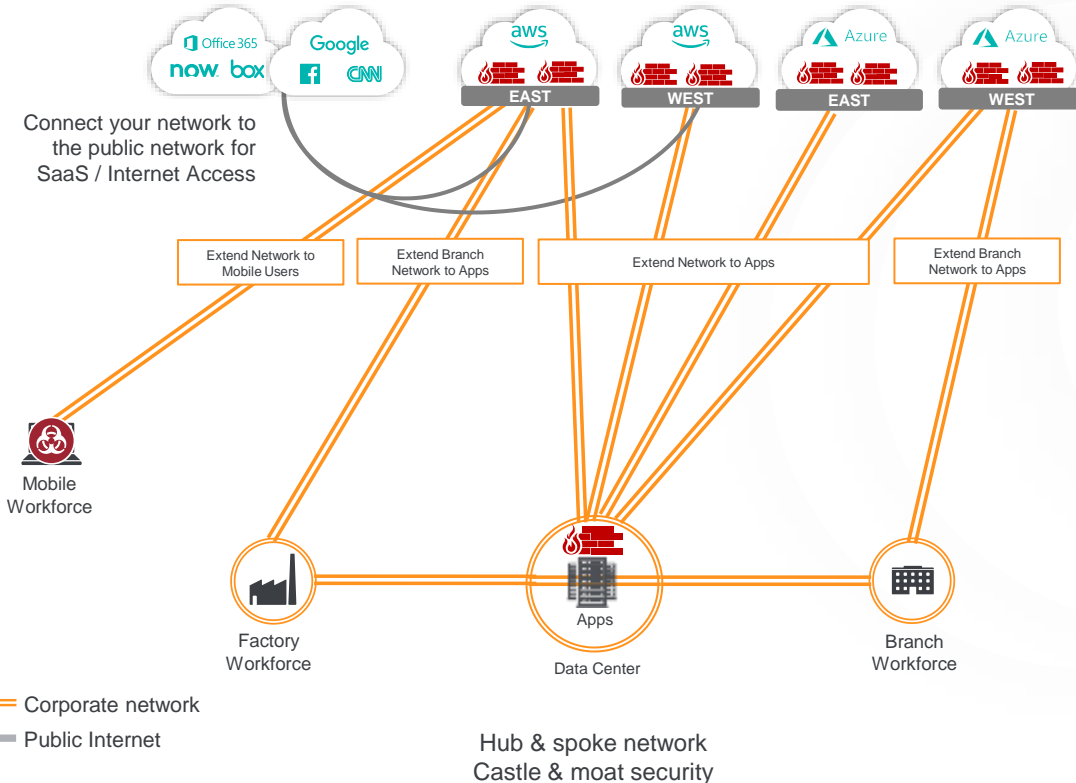| Conglomerates | Household & Personal Care | Apparel | Diversified Insurance | Beverages | Chemical |
|---|---|---|---|---|---|
| 7 OF THE TOP 10 | 6 OF THE TOP 10 | 6 OF THE TOP 10 | 5 OF THE TOP 10 | 7 OF THE TOP 10 | 8 OF THE TOP 10 |

1) Customer statistics for protection across countries, locations protected, users protected and Office 365 monthly traffic as of November 2020.
2) Customer by industry based on 2020 rank of "Forbes Global 2000" list.

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# Trying to Adapt Legacy Network and Security for the Cloud



Connect your network to the public network for SaaS / Internet Access

Mobile Workforce

Factory Workforce

Apps
Data Center

Branch Workforce

Extend Network to Mobile Users

Extend Branch Network to Apps

Extend Network to Apps

Extend Branch Network to Apps

— Corporate network
— Public Internet

Hub & spoke network
Castle & moat security

## Design Principles

1) **Secure the network to protect apps.**
   *Build a perimeter around your network.*

2) **Extend the network to your apps.**
   *Apps are network resources.*

3) **Extend the network to your users.**
   *App access requires network access.*

## Implications

- **Increased attack surface**
  *Every internet facing firewall can be discovered and attacked*

- **Increased risk of lateral threat movement**
  *A single infected machine on a flat network can infect the entire network (Not/Petya / Maersk)*

**Expensive, Complex, High Risk, Slow**

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# A Cloud-native Zero Trust Exchange is Designed for a Cloud-first World
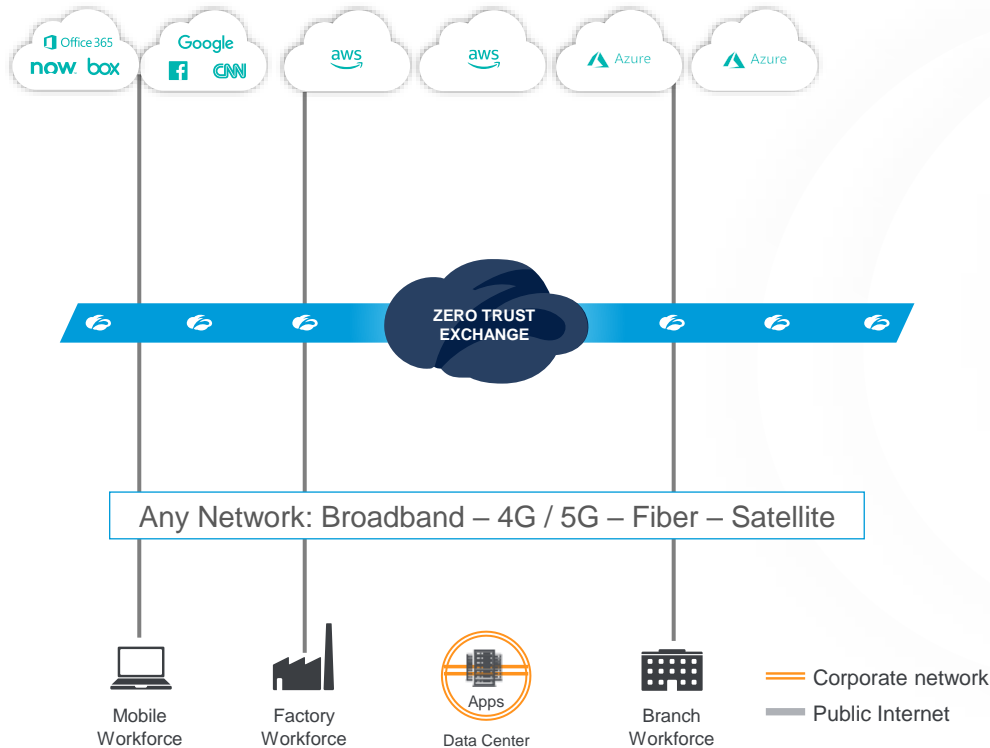


## Zero Trust Design Principles

1) Secure users and data with a Zero Trust Exchange, you do not secure the network

2) Treat apps as destinations, not network resources (SaaS)

3) Users connect to apps via a Zero Trust Exchange over any network, the network is plumbing (the internet the WAN)

## Benefits of a Cloud Native Design

- *Minimizes the attack surface.*
  *Apps are invisible to the internet and only accessible via the Zero Trust Exchange (replace VPN w/Zero Trust)*

- *Reduces the risk of lateral threat movement*
  *Uses user identity and context to connect a user to an app, not a network. Users and apps are never on the same network.*

**Simple, Fast, Secure**

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Technology Differentiation

# The Right Purpose-Built Architecture Matters

## Internal Combustion Engine

## Electric Vehicle



**Combined Market Cap $306B[1]**

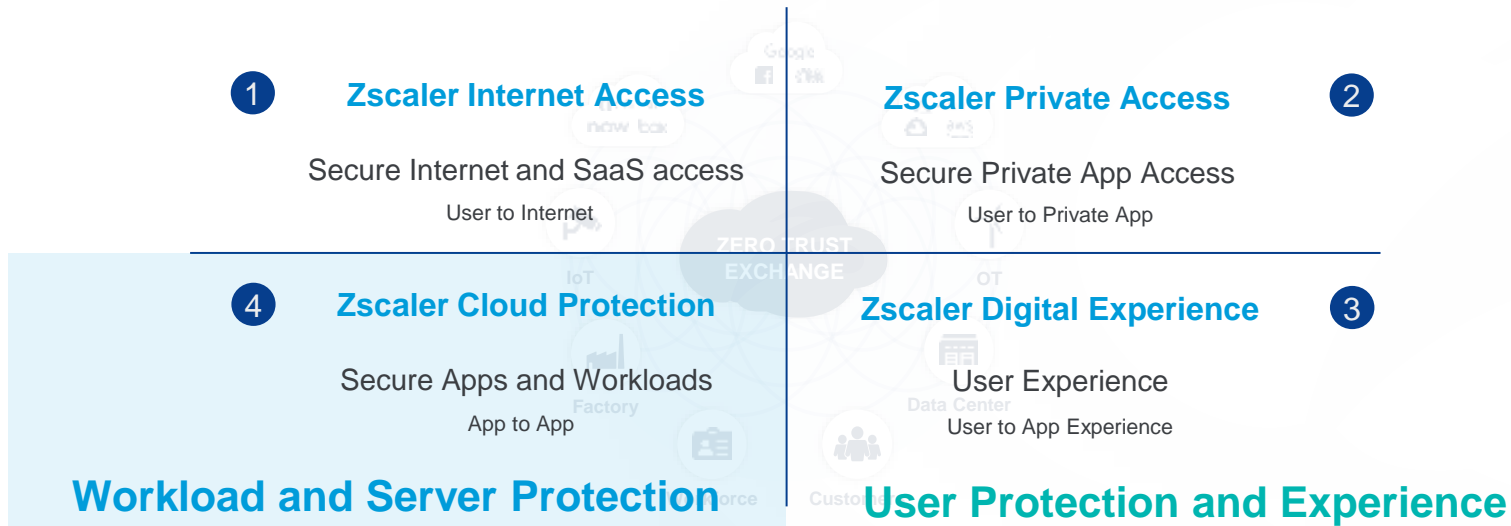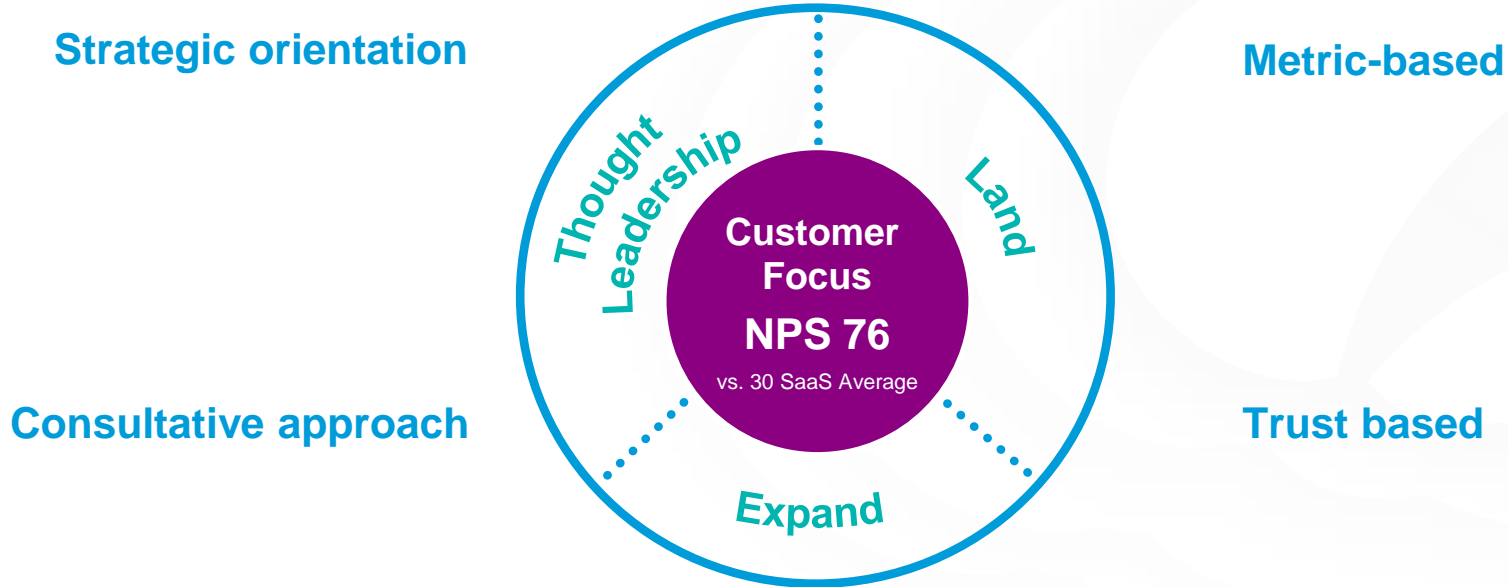**Market Cap $692B[1]**

1). Basic market caps of Daimler AG (DAI.DE), Honda (NYSE: HMC), Ford (NYSE: F), General Motors (NYSE: GM), Volkswagen (VOW.DE), and Tesla (NASDAQ: TSLA) from FactSet, as of January 4, 2021. Daimler and Volkswagen market cap converted to USD at exchange rate of $1.2276/EUR.

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Technology Differentiation

# Zscaler Innovation: Zero Trust Exchange Platform

**1** **Zscaler Internet Access**

Secure Internet and SaaS access

User to Internet

**2** **Zscaler Private Access**

Secure Private App Access

User to Private App

**4** **Zscaler Cloud Protection**

Secure Apps and Workloads

App to App

**Workload and Server Protection**

**3** **Zscaler Digital Experience**

User Experience

User to App Experience

**User Protection and Experience**

Simplify IT and reduce costs by consolidating and eliminating point products

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# Fine-tuned Process to Drive Strategic Customer Engagement

**Strategic orientation**

**Consultative approach**

Thought Leadership

Land

**Customer Focus**

**NPS 76**

vs. 30 SaaS Average

Expand

**Metric-based**

**Trust based**

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# 10+ Year Experience Running Multi-tenant Security Cloud at Scale



- **SLA: 99.999% availability**

- **Cloud effect on security:** 200,000 unique security updates per day to deliver world-class protection.

- **150 Datacenters globally**: Close to the users, with ability to burst to public cloud.

- **Renewable energy:** Commitment to use over 90% of power for our cloud by 2025, up from 75% today.

- **Cloud-native, elastic architecture:** Proven scale. Handled dramatic traffic surges, including a 10x increase in ZPA traffic over 3 months during COVID-19.

1)  Major cities where Zscaler has data centers.  This map does not show a comprehensive list of Zscaler's total global footprint of over 150 data center locations.

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# Shared Values as Foundation for Exceptional Culture and Business

## Core Values

**Customer Obsession**

**Open Communication**

**Teamwork**

**Innovation**

**Passion**

Our commitment to culture creates an environment where a **global and diverse workforce** can contribute at a very high level to **help our customers succeed.**

We view and measure culture by our **ability to execute.**

# Culture is Key Part of Business Strategy and Competitive Advantage

## Customer Centric

Ushering in a world of user & data centric security that 1) eliminates gaps created by legacy approaches and 2) reduces security appliance-related carbon emissions

## Diversity & Inclusion

Diverse background, experience, thinking drive innovation

D&I Committee provides a common framework to acknowledge, value, encourage and support a diverse and inclusive workplace

## Talent Development

Dedicated team for talent and career development, focused on leadership, personal wellness and growth

16% of workforce promoted in FY20[1]

(1)    Promotion rate is calculated based on total number of promotions divided by the average of beginning and ending total employee headcount for fiscal year 2020 ended July 31, 2020.

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## Attract & Develop Talent
# Becoming a Destination for Top Talent

**Great Place To Work**
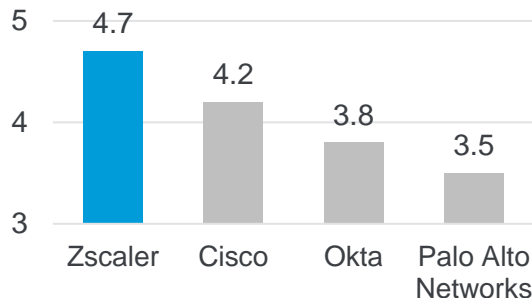90% Employees say Zscaler USA
is a Great Place to Work[1]

**Glassdoor**
Rated one of the best cloud computing
companies to work for[2]

**Employee engagement survey**
87% overall satisfaction score[3]

### Glassdoor Overall Rating[4]



| GLASSDOOR CATEGORY | ZS | CSCO | OKTA | PANW |
|---|---|---|---|---|
| CEO | **97%** | **92%** | **95%** | **68%** |
| RECOMMEND | 95% | 85% | 70% | 64% |
| POSITIVE OUTLOOK | 94% | 63% | 66% | 64% |
| COMP | 4.5 | 4.1 | 3.9 | 4.0 |

*Source: Glassdoor ratings, as of December 2020.*

(1)   Great Place to Work® 2019 U.S. National Employee Engagement Study.
(2)   Forbes article by Louis Columbus, February 20, 2020: *The Best Cloud Computing Companies To Work For In 2020 Based On Glassdoor.*
(3)   Internal Zscaler global employee engagement survey, May 2020.
(4)   Glassdoor ratings, as of December 2020.

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# Global Talent Sourcing

8 R&D/Engineering and 15 Sales offices*

- **Follow the sun model**
  for R&D, customer support and sales operations

- **Strategically positioned in India** for R&D, Finance, and Customer Support

- **Regional sales offices**
  for strong local presence

*San Jose and Chandigarh locations perform both Sales and Engineering operations.

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## Why We Will Win

- Market moving to Zero-Trust with Digital Transformation

- Trusted partner to CXOs of largest global organizations

- Strategic position - handling & securing enterprise-wide traffic

- Multi-tenant cloud scalability and Cloud effect

- GTM that can consistently sell value and drive larger deals

- Experienced team driving culture of excellence

- Strong balance sheet and attractive unit economics

## Well Positioned for Success!

# Q&A

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# Leading with Innovation and Cloud Scale

**Dr. Amit Sinha**
CTO & President of R&D, Operations, Customer Service

# Key Messages

**01**    Zscaler has built a **scalable, global platform** with significant barrier to entry

**02**    Zscaler has an **innovation engine** **and an** **extensible platform**
that delivers new functionality at a rapid pace

**03**    Zscaler platform provides **unparalleled security and visibility**
with vast amounts of data that fuels AI/ML engines and cloud-effect

**04**    Zscaler platform achieves **economies of scale**
with lower support and operational costs as it continues to expand

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# Global Footprint Delivers Better Security & User Experience

| **150** | **150B+** | **7B+** | **200K+** |
|---|---|---|---|
| Data Centers | Transactions / Day | Enforcements / Day | Security Updates / Day |



**Availability SLA 99.999%**
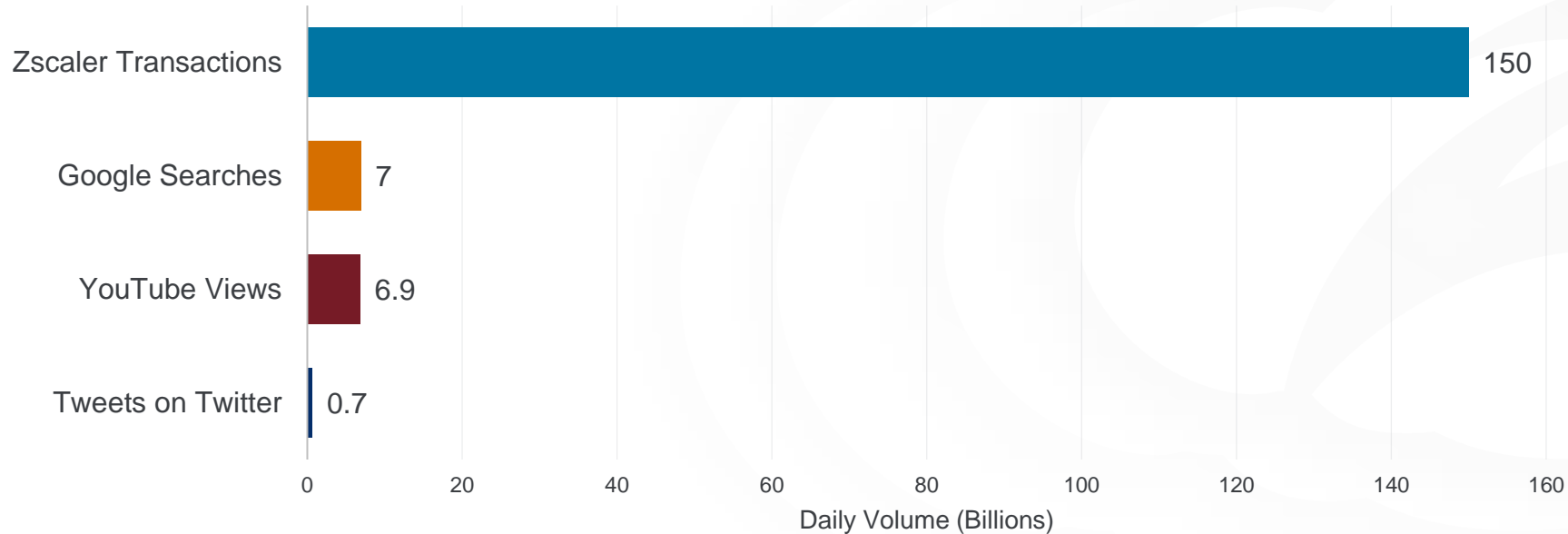
**75% Renewable Energy**

**Security Hardened**

**Operational Compliance**

*Map shows major cities where Zscaler has data center. This map does not show a comprehensive list of Zscaler's total global footprint of over 150 data center locations.

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Scale Creates Barriers to Entry

# Zscaler Daily Transactions on Internet Scale

Chart: Daily Volume (Billions)

- Zscaler Transactions: 150
- Google Searches: 7
- YouTube Views: 6.9
- Tweets on Twitter: 0.7

Daily Volume (Billions)

Source: Zscaler Transactions based on December 2020 data, https://www.zscaler.com/threatlabz/cloud-activity-dashboard.
All others based on Internet Live Stats - Internet Usage & Social Media Statistics, www.internetlivestats.com.

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# Scale Creates Barriers to Entry
## Proven Multi-Tenant Architecture Delivers Exponential Capacity

**Multi-tenant Architecture**
Scale with business demand

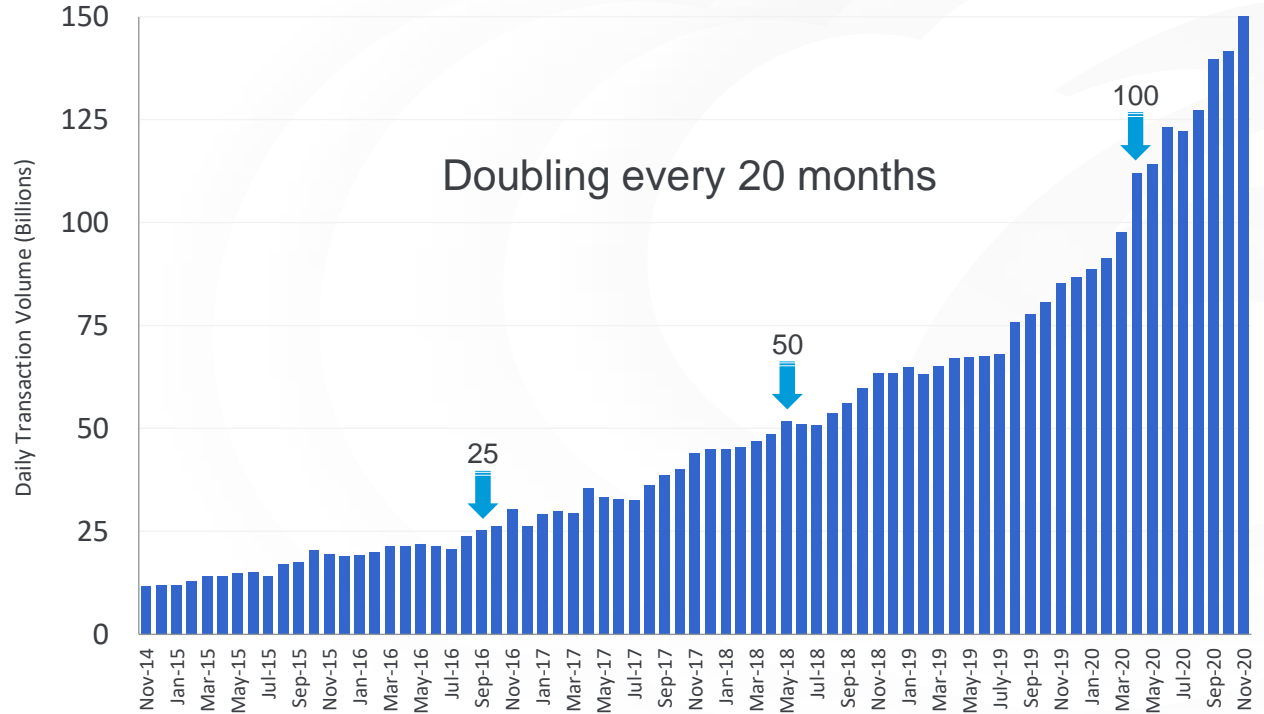**Global Fault Tolerance**
Internet grade, no single provider

**Elasticity**
COVID 10X ZPA surge handled

**Horizontal & Vertical Scale**
Software, hardware and operations



Zscaler Cloud Daily Transaction Volume Peak by Month

Doubling every 20 months

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# Scale Creates Barriers to Entry

## Zscaler is Destination Neutral and Built as an Edge Cloud Service



**Zscaler**
**150** Compute DCs

**NGFW on Cloud**
**20** Compute DCs

**COMPUTE DESTINATIONS**

**ACCESS EDGE**

Service Peering

~7 Front Doors Per Compute DC

**USERS & DEVICES ACROSS LOCATIONS**

DC

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# Customers Get Global Coverage & Reduced Carbon Footprint



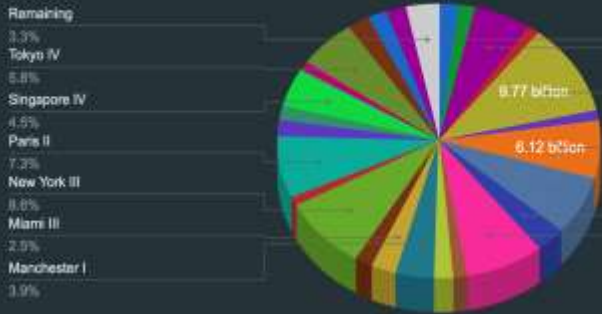| Total Transactions | Total Bytes | Renewable Energy Transactions | Renewable Energy Bytes | Renewable Energy Transactions(%) | Renewable Energy Bytes(%) |
|---|---|---|---|---|---|
| 121 billion | 5,769 trillion | 89.9 billion | 4,364 trillion | 74 | 76 |

**Leveraging Zscaler's Global Footprint**

**76% Renewable Energy Used**

| | Datacenter | Transactions | (Rx+Tx) Bytes | Renewable Energy (%) | Renewable Energy Transactions | Renewable Energy Bytes |
|---|---|---|---|---|---|---|
| 1 | Chicago | 9.77 billion | 468 trillion | 100 | 9.77 billion | 468 trillion |
| 2 | New York III | 7.73 billion | 342 trillion | 100 | 7.73 billion | 342 trillion |
| 3 | London III | 7.06 billion | 330 trillion | 100 | 7.06 billion | 330 trillion |
| 4 | Paris II | 6.57 billion | 316 trillion | 100 | 6.57 billion | 316 trillion |
| 5 | Frankfurt IV | 6.25 billion | 344 trillion | 100 | 6.25 billion | 344 trillion |
| 6 | Dallas I | 6.12 billion | 281 trillion | 100 | 6.12 billion | 281 trillion |
| 7 | Tokyo IV | 5.26 billion | 190 trillion | 100 | 5.26 billion | 190 trillion |
| 8 | Atlanta II | 5.18 billion | 229 trillion | 100 | 5.18 billion | 229 trillion |
| 9 | Singapore IV | 4.09 billion | 234 trillion | 100 | 4.09 billion | 234 trillion |
| 10 | Manchester I | 3.47 billion | 157 trillion | 100 | 3.47 billion | 157 trillion |
| 11 | Hong Kong III | 2.65 billion | 129 trillion | 100 | 2.65 billion | 129 trillion |
| 12 | Miami III | 2.25 billion | 117 trillion | 100 | 2.25 billion | 117 trillion |
| 13 | Vienna I | 1.99 billion | 111 trillion | 100 | 1.99 billion | 111 trillion |
| 14 | Amsterdam | 1.85 billion | 113 trillion | 100 | 1.85 billion | 113 trillion |
| 15 | Zurich | 1.8 billion | 94.2 trillion | 100 | 1.8 billion | 94.2 trillion |

## Renewable Energy Transactions



| Remaining | 3.3% |
| Tokyo IV | 5.8% |
| Singapore IV | 4.5% |
| Paris II | 7.3% |
| New York III | 8.8% |
| Miami III | 2.5% |
| Manchester I | 3.9% |

| Amsterdam | 2.1% |
| Atlanta II | 5.8% |
| Chicago | 10.9% |
| Dallas I | 6.6% |
| Frankfurt IV | 6.9% |
| Hong Kong III | 2.9% |
| London III | 7.9% |

9.77 billion

6.12 billion

## Renewable Energy Bytes



| Remaining | 3.1% |
| Tokyo IV | 4.4% |
| Singapore IV | 5.4% |
| Paris II | 7.3% |
| New York III | 7.8% |
| Miami III | 2.7% |
| Manchester I | |

| Amsterdam | 2.6% |
| Atlanta II | 5.2% |
| Chicago | 10.7% |
| Dallas I | 6.4% |
| Frankfurt IV | 7.9% |
| Hong Kong III | 3% |
| London III | 7.7% |

468 trillion

281 trillion

**Consistent Policy Enforcement Using Local Zscaler DCs**

*Actual IT administrator dashboard view.

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# Innovation Engine and Extensible Platform
# Proven History of Rapid Innovations & Growth



**INDUSTRY'S 1ST**
**Multi-Tenant Cloud Security Platform**

Inline DLP — 2009
SSO Integration — 2010
Mobile Security — 2011
Inline CASB — 2012
Cloud Sandbox — 2013
DNS Security — 2014
Cloud Firewall — 2015
Zscaler Private Access — 2016
Office365 Integration — 2017
AI/ML Partner APIs — 2018
Browser Isolation / API CASB / ZB2B — 2019
Zscaler Cloud Protection / Zscaler Digital Experience — 2020

**FOUNDED** — 2007

Timeline: 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020

**1B** Transactions Per Day
**10B**
**50B**
**150B**

**25th Patent** Filed — 2008
**CSA** Founder
**Gartner Visionary** SWG MQ
**Gartner LEADER SWG MQ**
**100th Patent** Filed
**IPO**
**200th Patent** Filed
**ONLY MQ LEADER 10th Years as Leader**

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# Extensible Platform with IP Barrier to Entry

## Comprehensive Platform
## Deep and Wide in Functionality
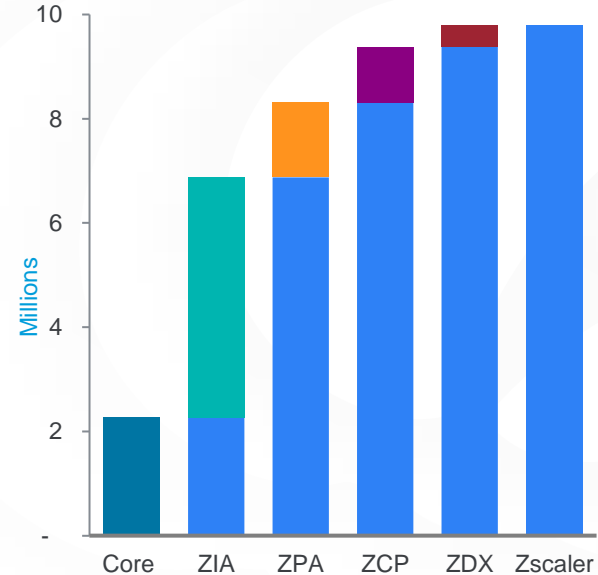
### Extensible Platform for easy functionality increase

Rapid development
Day one scalability

### Over 200 patents granted or pending

Disruptive innovations
IP protection

1)  Source: https://www.informationisbeautiful.net/visualizations/million-lines-of-code/

Millions

10
8
6
4
2
-

Core   ZIA   ZPA   ZCP   ZDX   Zscaler

## 10 million lines of code
Mars Rover was **5 million**[1]
Linux 2.6 was **5.2 million**[1]

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# Comprehensive Platform to Deliver Zero-Trust Security

## Zscaler Internet Access (ZIA)
Protect against threats and data leakage

**Threat Prevention**

Proxy (Native SSL)
Advanced Threat Protection
Cloud Sandbox
DNS Security

**Access Control**

Cloud Firewall
URL Filtering
Bandwidth Control
DNS Resolution

**Data Protection**

Cloud DLP
Exact Data Match
CASB
Browser Isolation

## Zscaler Private Access (ZPA)
Protect apps/data; only allow authorized access

**Zero-Trust Network Access**

Anti-VPN
Anti-Firewall
Anti-DDoS
Anti-network segmentation

**Discovery/Availability**

GSLB
App Health Monitoring
App Discovery

**App / Device Access**

Browser Isolation
Private Service Edge

## Zscaler Cloud Protection (ZCP)
Extends zero-trust security to public cloud

**Workload Communication**

Cloud to Internet
Cloud to Data Center
Cloud to Cloud

**Security Posture/CSPM**

Policy Compliance
Configuration Mgt

**Microsegmentation**

Software Identity
App segmentation

## Zscaler Digital Experience (ZDX)
Identify and resolve device and network issues

**Network Path Analysis**

Hop-by-hop Network Analytics

**Device Posture**

Device Health Metrics

**App Performance**

App Response Times

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Innovation Engine and Extensible Platform

# Zscaler Client Connector Provides A Footprint to Expand

**Single end-point agent for ZIA/ZPA/ZDX**

Eliminates multiple agents (FW, VPN), simplifies IT

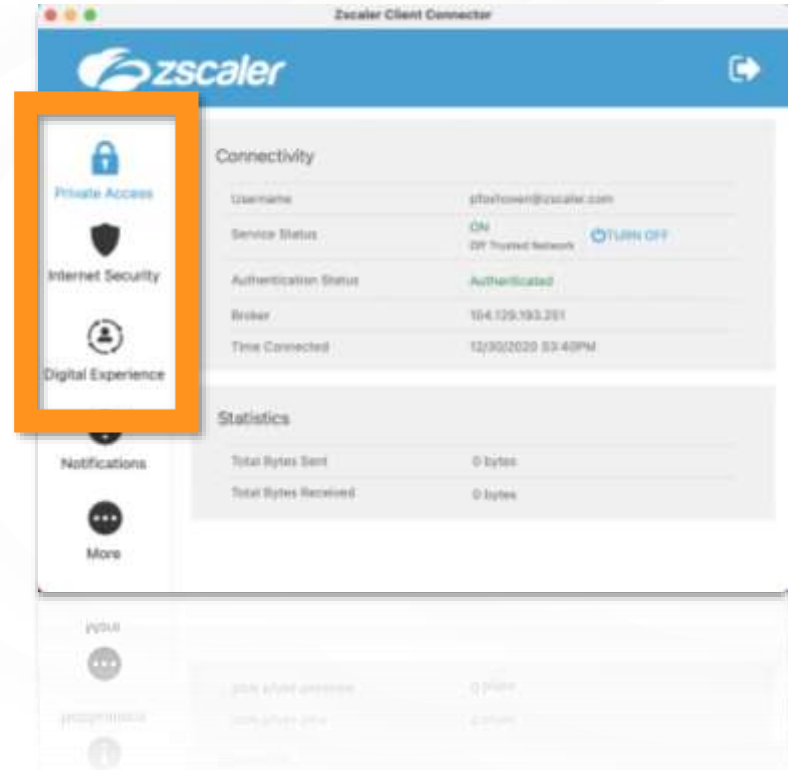**Running on over 17 million devices**

Works seamlessly on Windows, MAC, Linux, iOS, Android

**Easy Land and Expand**

Just enable license for ZIA, ZPA, ZDX - no new deployment
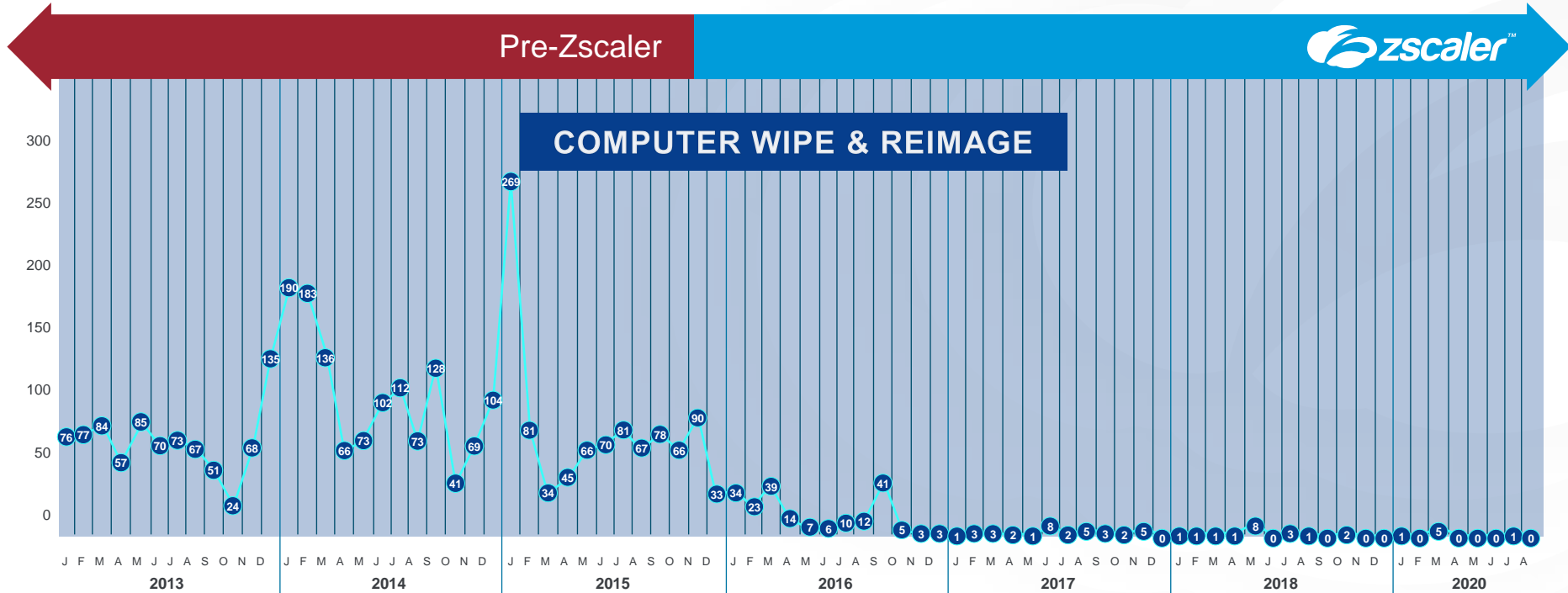
**Lightweight and Extensible**

Heavy lifting done in the cloud, better device UX

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Unparalleled Security and Visibility

# Zscaler Delivers Unparalleled Security & Visibility

National Oilwell Varco (NOV): 35X Reduction in Infected Devices with Zscaler

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# AI/ML: Big Data + Domain Expertise + Data Science

**Intelligent Threat Prevention**
- Smart Quarantine
- Zero Day Malware

**Automatic Classification**
- Dynamic Content Classification
- Auto-segment Workload & Apps

**Anomaly Detection**
- User and App Behavioral Anomalies
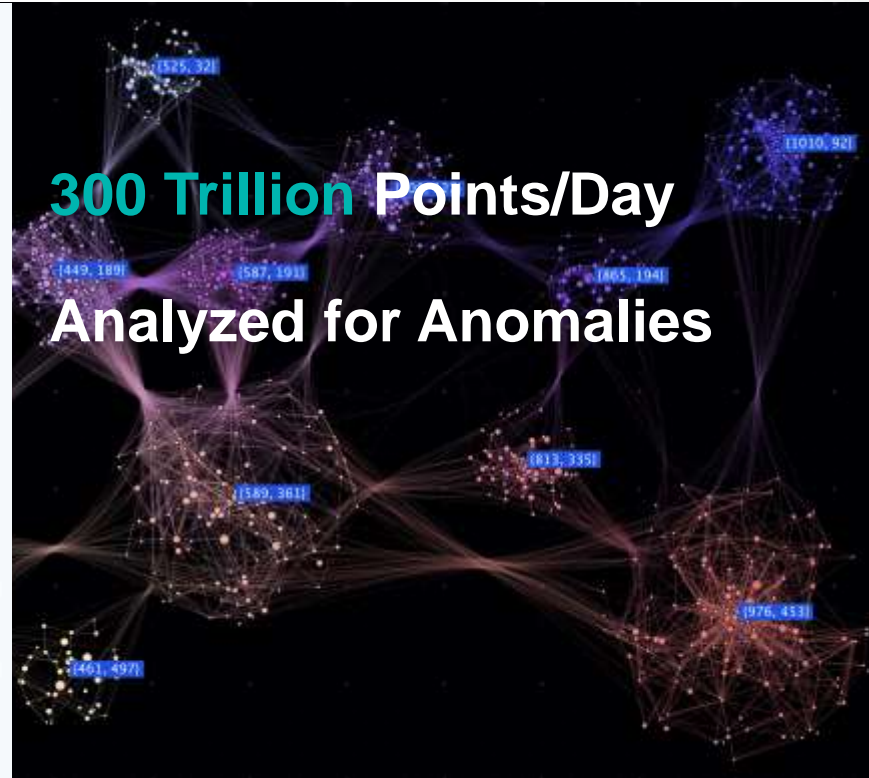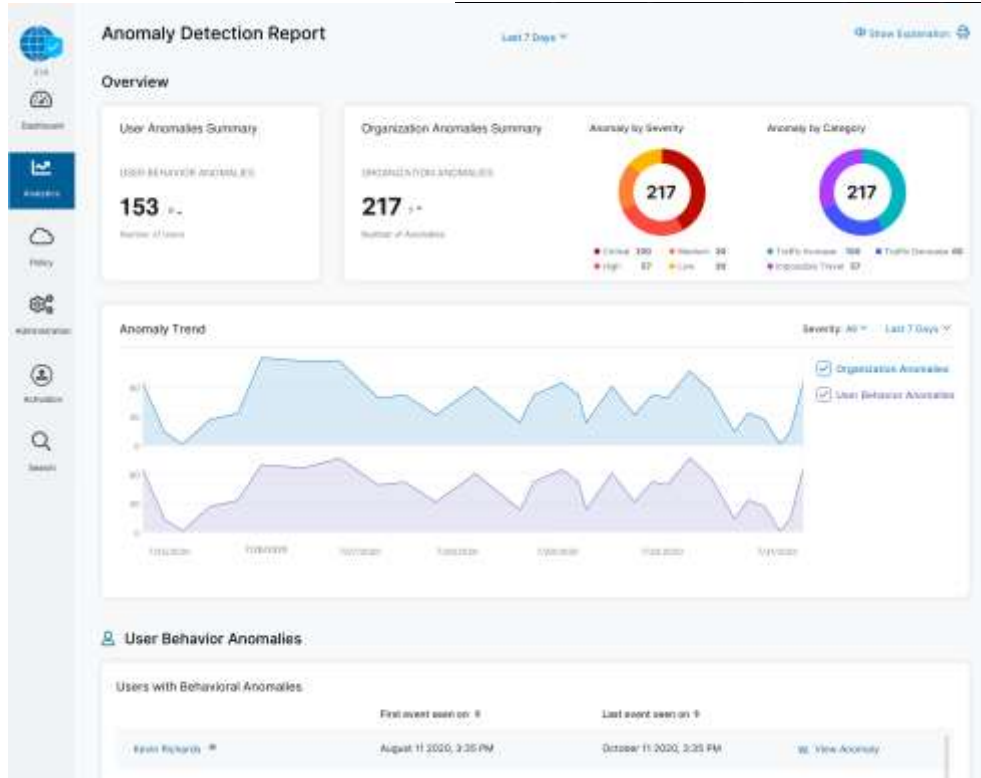- Conditional Access

**Improved User Experience**
- Automatic Root Cause for Poor UX
- Automatic Attribution for Platform Issues

**+ ML**

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# Unparalleled Security and Visibility
## Platform Delivers Better AI/ML Models with Big Data



**300 Trillion Points/Day**
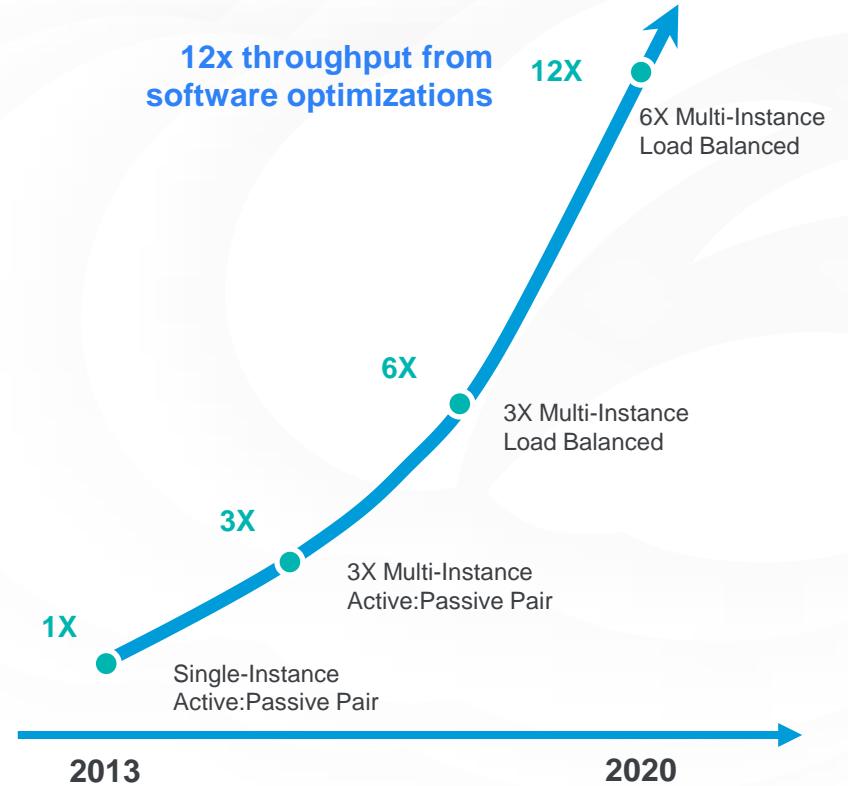
**Analyzed for Anomalies**

# 1U Box to the Power of Z: Efficiency in Processing Cost, Lower Carbon Footprint

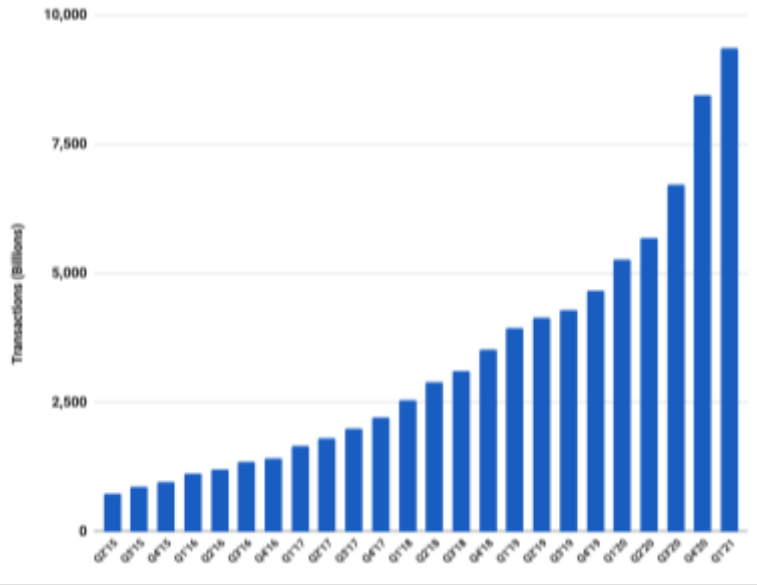Zscaler highly optimized software delivers higher throughput per Intel processor

Competition = Zscaler
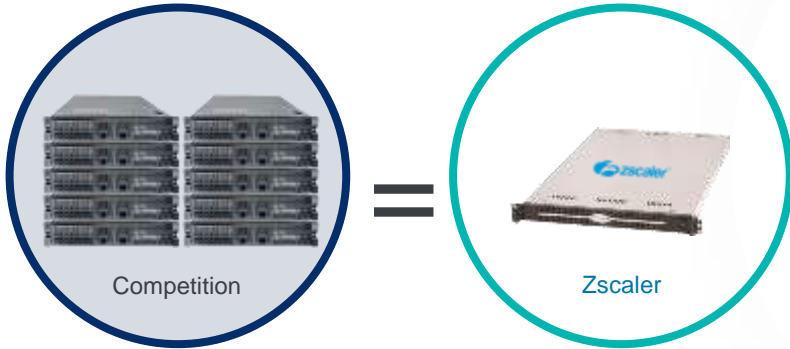
10 proxy appliances* = 1U Zscaler

*Ratio based on select Bluecoat SG replacements at multiple large enterprises.

**12x throughput from software optimizations**

**12X**
6X Multi-Instance
Load Balanced

**6X**
3X Multi-Instance
Load Balanced

**3X**
3X Multi-Instance
Active:Passive Pair

**1X**
Single-Instance
Active:Passive Pair

**2013**                                **2020**

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# Economics of Scale
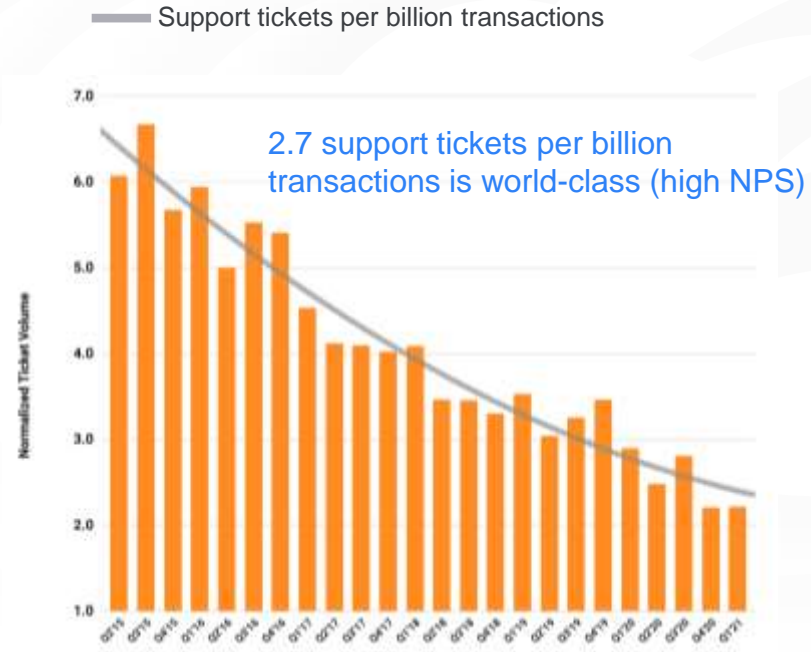# Support Cost (COGS) Down, NPS Up as the Platform Grows

## Quarterly Transactions (Billions)

## Quarterly Support Tickets / Transactions

— Support tickets per billion transactions

2.7 support tickets per billion transactions is world-class (high NPS)

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# Key Messages

**01** Zscaler has built a **scalable, global platform** with significant barrier to entry

**02** Zscaler has an **innovation engine** **and an** **extensible platform** that delivers new functionality at a rapid pace

**03** Zscaler platform provides **unparalleled security and visibility** with vast amounts of data that fuels AI/ML engines and cloud-effect

**04** Zscaler platform achieves **economies of scale** with lower support and operational costs as it continues to expand

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# Zscaler Cloud Protection (ZCP) Taking Zero Trust to the public cloud

Patrick Foxhoven
CIO & EVP, Emerging Technologies

# Extending Zero Trust to Cloud Workloads

ZCP extends our reach into new markets

Zscaler pioneered Zero Trust in enterprises with ZIA and ZPA focused on North/South traffic flows between the users and application

**New! Zscaler Cloud Protection (ZCP)** solutions extend zero-trust into **East/West traffic flows between workloads**

Underlying **principles of scaling** ZIA, ZPA and ZCP **remain the same**

## Zero Trust Architecture

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# Zscaler Cloud Protection: Reduce the Risk of Embracing the Cloud

**Protect multi-cloud workloads**

**1** **Cloud Security Posture Mgt (CSPM)**
*Ensure proper configuration
and compliance of workloads*

**3** **Workload segmentation**
*Eliminate the risk of lateral threat
movement without having to do
legacy network segmentation*

Security Posture

Workload Communication

**User to
workloads**

**(Zero Trust)**

Workload Segmentation
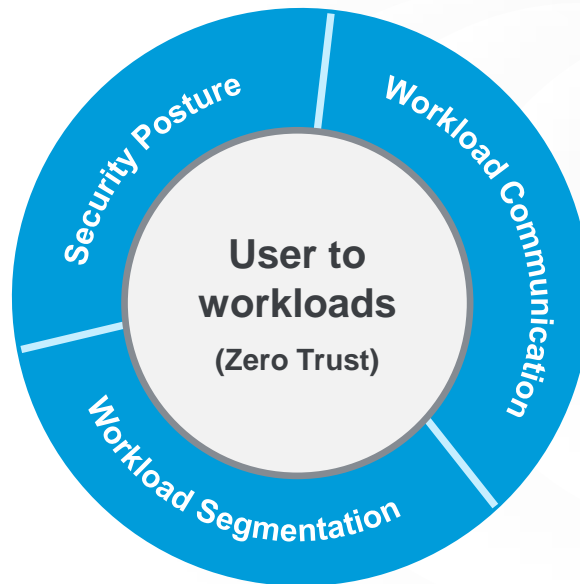
**2** **Workload Communication**
*Secure workload and app-to-app
cloud-cloud, cloud-internet and
cloud-DC connectivity*

*Powered by:
Zscaler Cloud Connector
ZIA/ZPA policy engine*

**Secure user-to-app access**

*Secure per app access by the workforce and B2B
customers without exposing apps to internet*

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# Application Transformation is Accelerating

Company owned data center

Azure

aws

Google
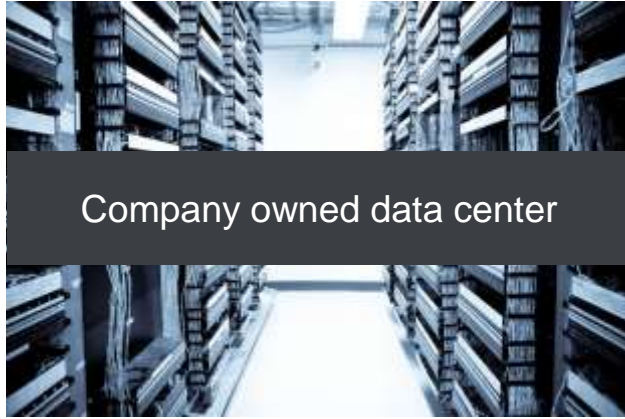
**Gartner**

"81% of customers have multi-cloud deployments, growing to 98% by end of 2021

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# The Reality of a Multi-cloud Approach

To provide employees and partners fast and reliable access, apps need to be close to the user
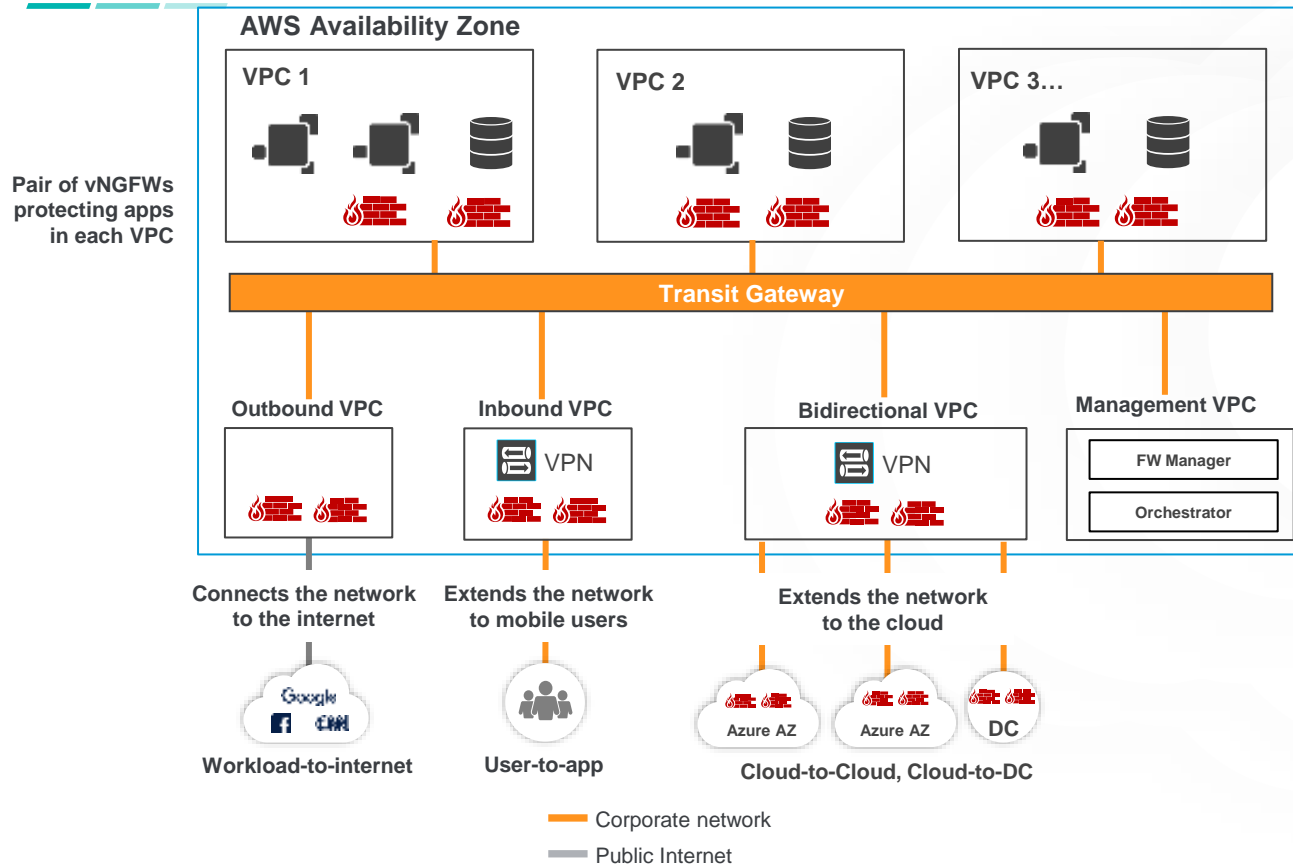
Multi-cloud

Multi-regions

Multi-availability zones (AZ)

## Global Conglomerate Architecture

**Multi-cloud**

**4 Azure regions / 4 AWS regions**

**2 AZs per region → 16 locations**

Distributed and dynamic

# Securing Public Cloud with Legacy Security
# Current Approach Is Unmanageably Complex and High Risk



**AWS Availability Zone**

**VPC 1**

**VPC 2**

**VPC 3…**

**Pair of vNGFWs protecting apps in each VPC**

**Transit Gateway**

**Outbound VPC**

**Inbound VPC** — VPN

**Bidirectional VPC** — VPN

**Management VPC**
- FW Manager
- Orchestrator

**Connects the network to the internet**

**Extends the network to mobile users**

**Extends the network to the cloud**

Google, Facebook, CNN

Azure AZ    Azure AZ    DC

**Workload-to-internet**

**User-to-app**

**Cloud-to-Cloud, Cloud-to-DC**

— Corporate network
— Public Internet

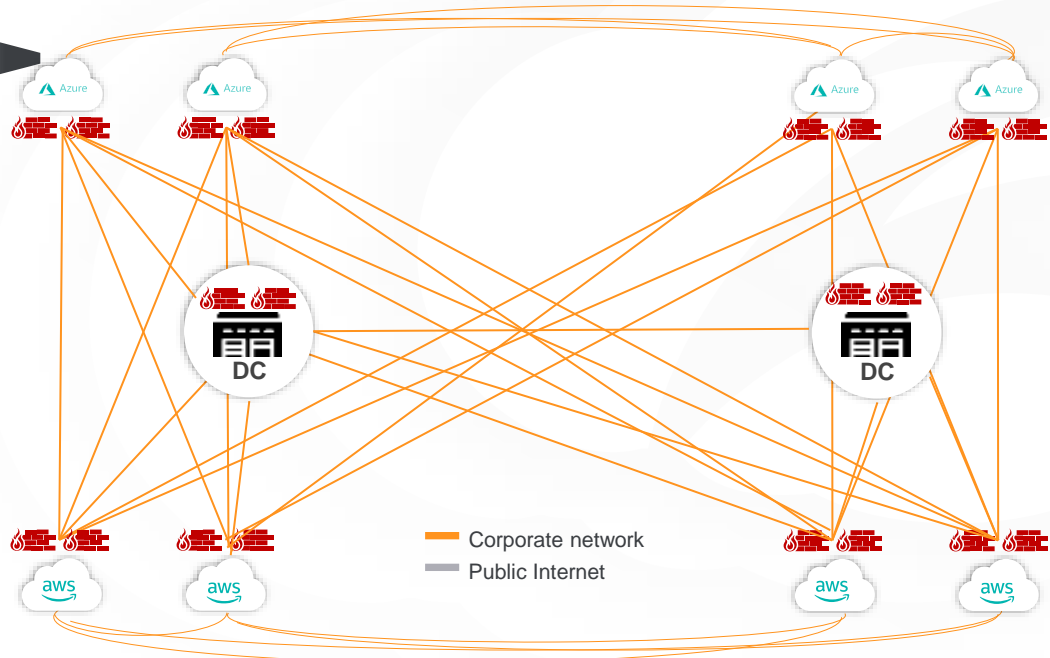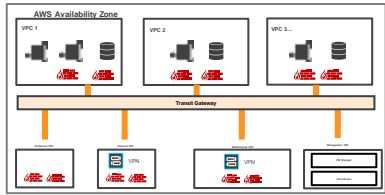**High management overhead hinders DevSecOps speed and agility**

"DIY" network, peering and security leads to **poor performance & high costs**

DevOps **circumvents IT / security** for speed and agility

**Expensive, Complex, High Risk**

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# For Multi-cloud, Complexity and Risk Grows Multi-fold



## Design Principles

1) **Secure the network to protect apps.**
   *Build a perimeter around your network.*

2) **Extend the network to your apps.**
   *Apps are network resources.*

3) **Extend the network to your users.**
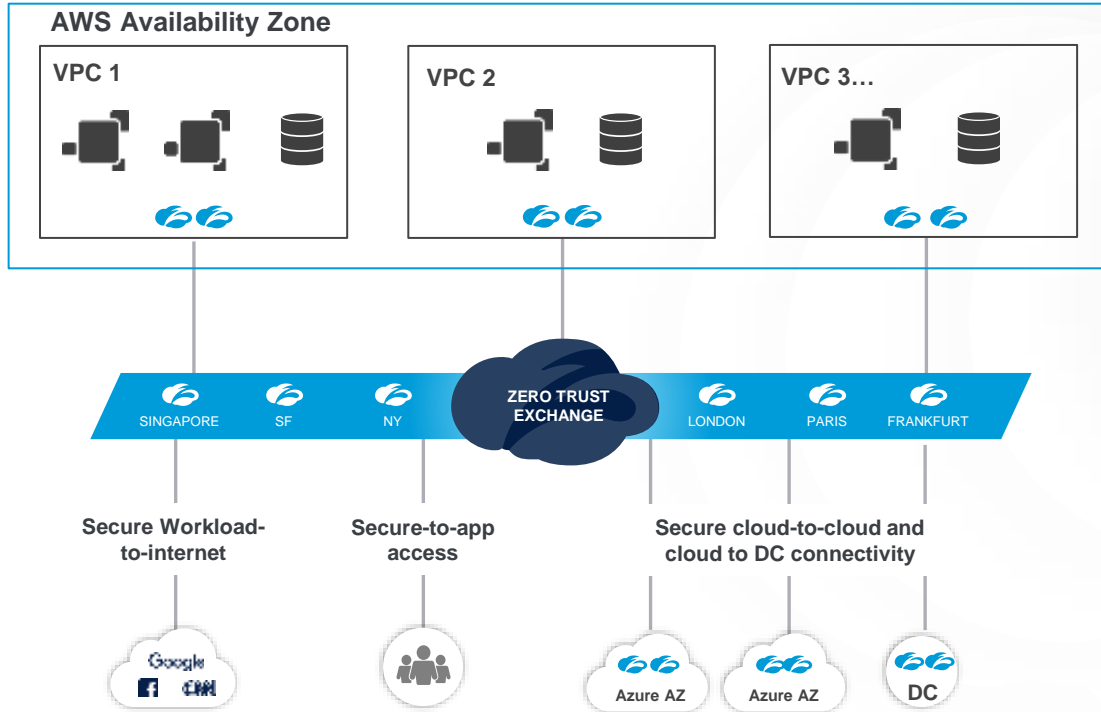   *App access requires network access.*

## Implications

- **Increased attack surface**
  *Every internet facing firewall can be discovered and attacked*

- **Increased risk of lateral threat movement**
  *A single infected machine on a flat network can infect the entire network (Not/Petya / Maersk)*

**Expensive, Complex, High Risk, Slow**

# Secure and Simple For Global, Multi-cloud Deployments

## Zero Trust Design Principles

1) Secure users and data with a Zero Trust Exchange, you do not secure the network

2) Treat apps as destinations, not network resources (SaaS)

3) Users connect to apps via a Zero Trust Exchange over any network, the network is plumbing (the internet the WAN)

## Benefits of a Cloud Native Design

- *Minimizes the attack surface.*
  *Apps are invisible to the internet and only accessible via the Zero Trust Exchange (replace VPN w/Zero Trust)*

- *Reduces the risk of lateral threat movement*
  *Uses user identity and context to connect a user to an app, not a network. Users and apps are never on the same network.*

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# Automating, simplifying and securing workload communications

**Simplified, flexible traffic forwarding** within and across clouds via **Cloud Connector**

**ZIA and ZPA policy engines** enforce easy to manage business level policies

*ZIA enforces policy, security and data protection for workload to internet comms*

*ZPA delivers zero trust for secure:*
- *user-cloud*
- *cloud-cloud*
- *cloud-DC*
- *3rd party file exchange access*



**3** Secure cloud to cloud communications (ZPA)

**2** Secure cloud to data center communications (ZPA)

**4** Secure cloud to internet communications (ZIA)

**1** Secure user to cloud access (ZPA)

ZERO TRUST EXCHANGE

East

West

East

Internet / SaaS

Data Center

Customer / Supplier

WFA Workforce

3rd Party Contractor

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Q&A

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# 5 Minute Break

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# Scaling Go-to-Market and Customer Engagements

Dali Rajic,
President Go-to-Market and CRO

# Safe Harbor

**Forward-Looking Statements**

This presentation has been prepared by Zscaler, Inc. ("Zscaler") for informational purposes only and not for any other purpose. Nothing contained in this presentation is, or should be construed as, a recommendation, promise or representation by the presenter or Zscaler or any officer, director, employee, agent or advisor of Zscaler. This presentation does not purport to be all-inclusive or to contain all of the information you may desire.
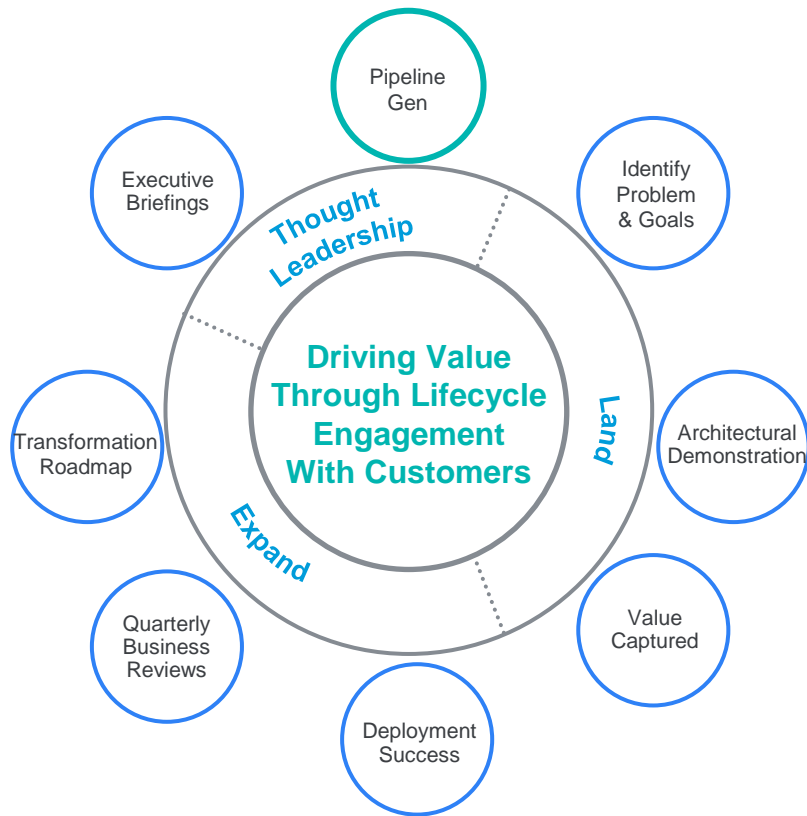
This presentation contains forward-looking statements. All statements other than statements of historical fact, including statements regarding our planned products and upgrades, business strategy and plans and objectives of management for future operations of Zscaler are forward-looking statements. These statements involve known and a significant number of unknown risks, uncertainties, assumptions and other factors that could cause results to differ materially from statements made in this message, including any performance or achievements expressed or implied by the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment, and new risks may emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results or outcomes to differ materially from those contained in any forward-looking statements we may make, including but not limited to the duration and global impact of COVID-19 on our business, operations and financial results and the economy in general; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner. Additional risks and uncertainties that could affect our financial and operating results are included in our most recent filings with the Securities and Exchange Commission ("SEC"). You can locate these reports though our website at http://ir.zscaler.com or on the SEC website at www.sec.gov.

In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "continues," "contemplate," "could," "estimate," "expect," "explore," "intend," "likely," "may," "plan," "potential," "predict," "project," "should," "target," "will" or "would" or the negative of these terms or other similar words. Zscaler based these forward-looking statements largely on its current expectations and projections about future events that it believes may affect its business. Actual outcomes and results may differ materially from those contemplated by these forward-looking statements. All forward-looking statements in this message are based on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

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# Key Messages

**01** World Class GTM model for driving hyper-growth, velocity and increased predictability via formulaic **productive capacity** model

**02** Unique opportunity and solution to sell '**business transformation**' while reducing 'long term costs' and increasing agility

**03** Sell value and deliver business outcomes every step of our engagement with the customer. **Driving maximum customer satisfaction, retention and expansion**

**04** Increased volume from Channel Partners and Tech alliances. **Driving new logo and G2K**

**05** Growth, new investment and **velocity in the Enterprise Segment** (2k-6k employees)

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Partnering at every step of the **journey**

Pipeline Gen

Executive Briefings

Identify Problem & Goals

Thought Leadership

Land

Driving Value Through Lifecycle Engagement With Customers

Transformation Roadmap

Architectural Demonstration

Expand

Value Captured

Quarterly Business Reviews

Deployment Success

**VALUE**
EXECUTION

Transform

Adopt

Data Driven

Value Driven

ZSCALER

DIFFERENTIATION

**CONSULTATIVE APPROACH**

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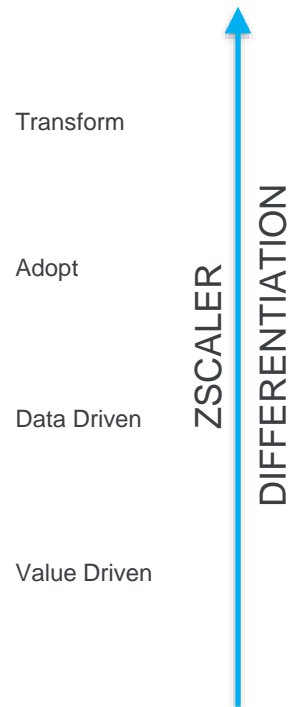
"Zscaler **enables us to save costs** and **reduce threat surface area.** It scales beautifully…we didn't need to build out additional infrastructure. It was the **obvious solution.**"

*Steve Day, CISO,*
*National Australia Bank*

**PAYCHEX**

**Enable M&A agility**

**2-3x** Faster time to value and reduce time to integrate systems

**NOV**

**Enhance security posture**

**35x** Fewer infected machines

**GE**

**Better user experience & productivity**

**80%** Faster user experience

**SIEMENS**

**Technology Cost Optimization**

**70%** Infrastructure cost reduction

# Hyper-growth Formula for **Productivity**

Productivity *(y-axis)*

Time *(x-axis)*

Current **zscaler**

Expand Routes to Revenue
or Additional LIFT

Pipe
Conversion

Deal
Velocity

Historical **zscaler**

PRODUCTIVE CAPACITY

(VO) – Visible
Opportunity

(NBM) –
New Business Meetings

**Measurable
IMPROVEMENT**
in time to productivity
for new sales reps

(PG) – Pipeline
Generation

(Ramp) –
Minus 15 day On-Board
+ Bootcamp

**(TTF) Time to Fill**
(Recruit / Retain / Revenue)

Built 'Routes to Revenue'
*(Partners, Renewals, Virtual Briefings, etc.)*
to help drive velocity and
exceed productive capacity.

Developed Sales-Driven Pipeline
Generation programs. Accompanied
with focused training on use cases,
personas and business outcomes.

Focused Training to reduce
time to hire the right people.
Built -15 day on-boarding and
bootcamps to reduce ramp time.

# Customer Phased Journey to Zero-Trust

## Phase 1

### Empower & secure workforce

**ZIA, ZPA and ZDX**

Direct-to-Internet for Work-From-Anywhere

Network security → user and data protection

Accelerating M&A Integration

## Phase 2

### Protect data in the cloud

**ZCP**

Accelerating Cloud Migration

Direct Access to Multi-Clouds

Eliminating Attack-Surface

## Phase 3

### Enable supply chain
Secure supplier and B2B customers' access

**ZPA and ZB2B**

B2B Digital Services Exchange

Secure third-party access to private applications

## Phase 4

### Secure IOT and OT

**ZCP and future products**

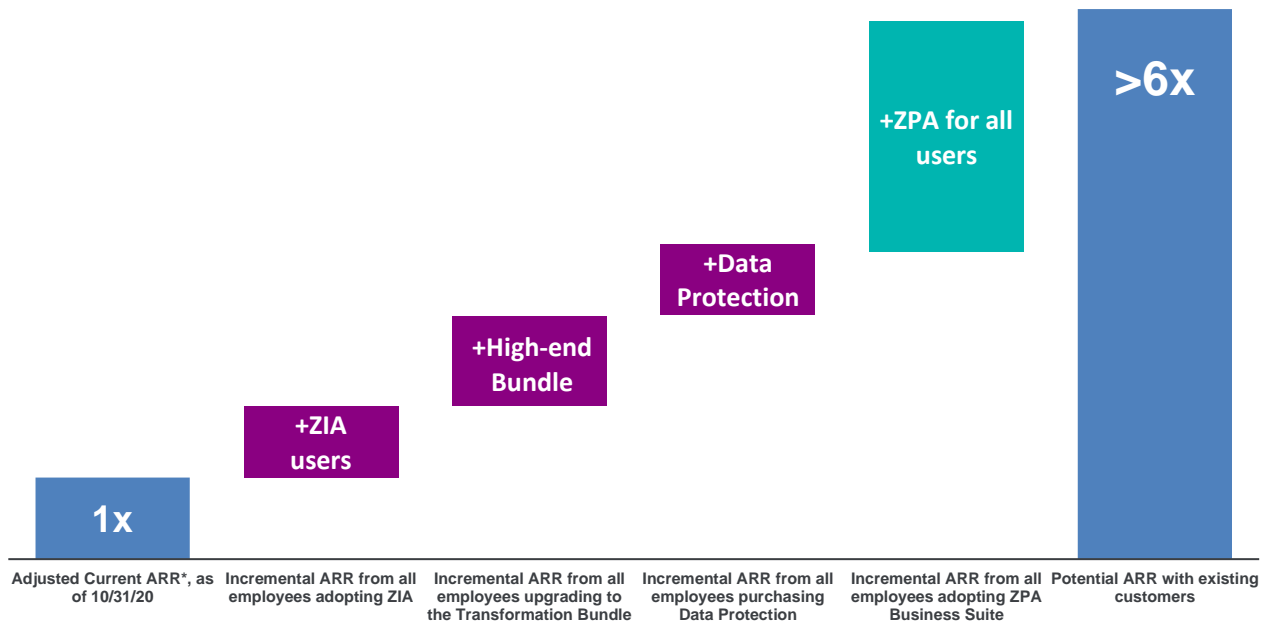Machine-to-Machine use case

Edge Computing/5G

Standardize security architecture across the company

**Enabling Zero-Trust Architecture and Cloud-based Business Agility for Digital Transformation**

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# >6x

**Upsell Opportunity**
on ZIA and ZPA alone
with existing customers*



| **1x** | **+ZIA users** | **+High-end Bundle** | **+Data Protection** | **+ZPA for all users** | **>6x** |
|---|---|---|---|---|---|
| Adjusted Current ARR*, as of 10/31/20 | Incremental ARR from all employees adopting ZIA | Incremental ARR from all employees upgrading to the Transformation Bundle | Incremental ARR from all employees purchasing Data Protection | Incremental ARR from all employees adopting ZPA Business Suite | Potential ARR with existing customers |

*Upsell opportunity analysis based on Annual Recurring Revenue (ARR) of customers with 100 ZIA seats or more, as of Q1'21 ending October 31, 2020; this process eliminates paid trials and other smaller deployments, which if included would increase upsell potential further. Our analysis also excludes OEM agreements and end customers with deals primarily based on traffic/usage. Including all adjustments as noted, Adjusted ARR represents over 95% of Total ARR.

We calculate total Upsell Opportunity as total incremental ARR from selling additional seats to cover total employees and additional ZIA and ZPA product functionality at their existing subscription prices, and then applying an incremental discount of 35% on the upsell. Our analysis excludes newly introduced products, including ZB2B, API CASB, Browser Isolation, ZDX and ZCP.

We determine *Incremental ARR* by calculating the potential value of: 1) additional ZIA seat subscriptions for customers that have purchased ZIA for none or for a subset of total employees, assuming purchase of equivalent product functionality/bundles as existing ZIA subscription, or ZIA Transformation Bundle where no prior ZIA subscription was purchased, for remaining employees, 2) additional product functionality in high-end Transformation Bundle, where customers purchased Professional or Business Bundles, 3) add-on subscriptions for Data Protection products, including DLP and Exact Data Match, and 4) additional ZPA seat subscription for customers that have purchased ZPA for none or for a subset of total employees, assuming purchase of equivalent product functionality/bundles as existing ZPA subscription, or ZPA Business Suite where no prior ZPA subscription was purchased, for remaining employees.

Total employee count for existing customers is Zscaler internal data based on various sources including customer-supplied information, public filings with SEC, Hoover's, Dun & Bradstreet, Discover.org and ZoomInfo.

# New Summit Partner Program Increasing **Confidence** and **Opportunity**

- **Summit Partner Program** initiated in Q3'20 to engage & enable Partners. Reward them with corresponding tiered benefits

- Requires Partners to participate in quarterly campaigns, sales training, **technical enablement & joint demand generation** activities

- Value Based *(not volume based)* program developed to engage early through interlock, **drive new logos** and execute together through the sales process

QoQ growth
in Deal Registrations
Submitted by Partners

30%

54%

Q3'20    Q4'20    Q1'21
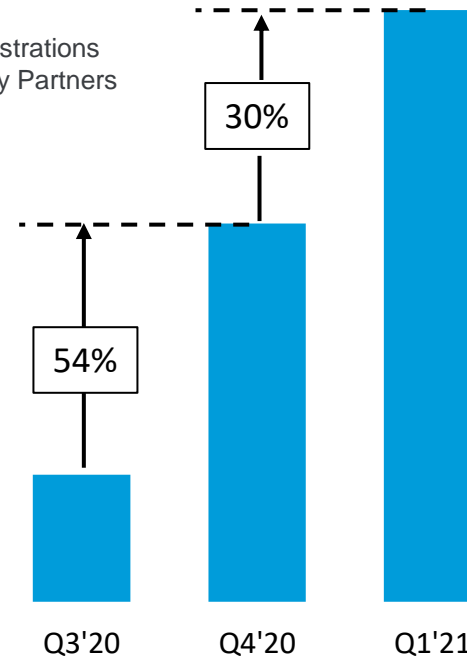
*Bar chart reflect non-zero baseline*

## Increasing Sourced Business
**56% of the G2K New logo ACV in Q1'21 was Partner Sourced**

# Technical Alliances **Creating Leverage** For New Logos

**Microsoft**

ONLY security vendor in
Microsoft's **Networking Partner Program**

ISV Partner of the Year, Microsoft Security 20/20

Broad integration across Office 365,
Azure public cloud, Azure AD, Azure Sentinel

**aws**

Building new paths to revenue with AWS

Joint GTM efforts to accelerate and supersize
cloud initiatives

**vmware®**

Extended our strategic partnership
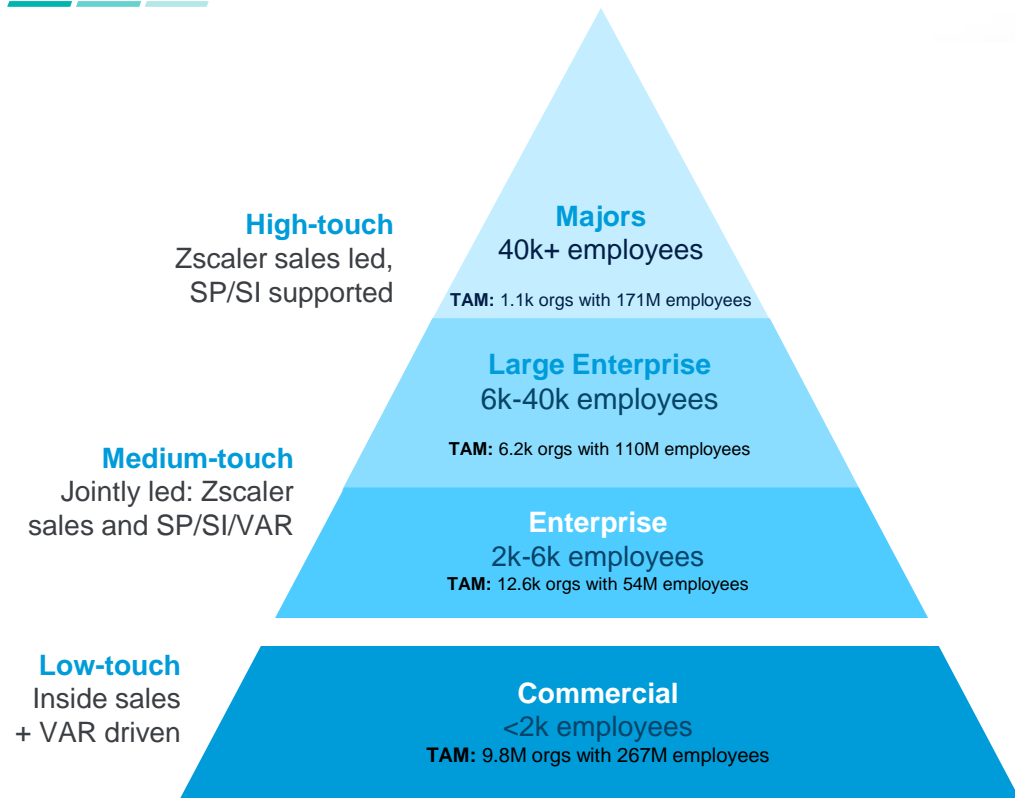with VMware

Integrating with SD-WAN and Carbon Black

**CROWDSTRIKE**

CrowdStrike is a recent addition

Expect growth contribution as the
partnership matures

# Scaling with Majors & Large Enterprises, While Expanding To Smaller Enterprises

## Targeted account-based sale with focus on enterprises

**High-touch**
Zscaler sales led, SP/SI supported

**Medium-touch**
Jointly led: Zscaler sales and SP/SI/VAR

**Low-touch**
Inside sales + VAR driven

**Majors**
40k+ employees
**TAM:** 1.1k orgs with 171M employees

**Large Enterprise**
6k-40k employees
**TAM:** 6.2k orgs with 110M employees

**Enterprise**
2k-6k employees
**TAM:** 12.6k orgs with 54M employees

**Commercial**
<2k employees
**TAM:** 9.8M orgs with 267M employees

### WINNING WITH MAJORS & LARGE ENTERPRISES

### EXPANDING TO ENTERPRISE SEGMENT
**NEW INVESTMENT:**
- Specific marketing program dollars towards <6k employee companies.
- Specific Strategy & Enablement programs/playbooks for this segment

**ATTRACTIVE MARKET SEGMENT:**
- Expands TAM significantly
- Shorter sales cycle
- Leverage: Channel plays a bigger role in the segment

### EXPLORING OPPORTUNITIES IN COMMERCIAL:
via Distribution/MSP models, which are zero to low touch
- Partners asking for our help to service this market

Total Addressable Market (TAM) for Majors, Large enterprise, Enterprise and Commercial segments are based on data from ZoomInfo for total Global Parent Companies and their Total Employees, rounded to nearest digit, as of December 23, 2020.

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# Key Takeaways

**01** World Class GTM model for driving hyper-growth, velocity and increased predictability via formulaic **productive capacity** model

**02** Unique opportunity and solution to sell '**business transformation**' while reducing 'long term costs' and increasing agility

**03** Sell value and deliver business outcomes every step of our engagement with the customer. **Driving maximum customer satisfaction, retention and expansion**

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**Driving new logo and G2K**

**05** Growth, new investment and **velocity in the Enterprise Segment** (2k-6k employees)

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# Marketing as a Driver for Growth

Chris Kozup
CMO

# Investing in Marketing as a Driver for Growth
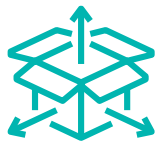
## BRAND

We are opening more doors by amplifying our Secure Digital Transformation brand promise

## DEMAND

We are specializing our demand generation engines to focus on segments

## LOYALTY

We are building on our strong customer relationships to reach new CIOs, CTOs and CISOs

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# Opening New Doors with Compelling Brand Promise

Secure Your Digital Transformation **zscaler™** With the Zscaler Zero Trust Exchange

## PAID

86% Y/Y increase in Brand investment[1]

Targeted advertising and search engine marketing

CXO Summits and regional networking virtual events

## ORGANIC

ThreatLabz security research blogs and proactive PR

Strong engagement with 40+ Gartner Analysts

Showcase of customer successes

**2.8x** Google Search Ads performance vs. Industry[2]

**49%** Y/Y Growth in security blog readership[3]

**>50%** Y/Y Growth in organic web traffic[4]

1. Source: Zscaler – Brand spend in FY20 compared to FY21
2. Source: Google – From Aug 2020 – Nov 2020 Zscaler had an average Click Through Rate of 7.10% versus the industry average of 2.5%
3. Source: Google Analytics – Visitors to Zscaler Blog website from Jan 2019 – Nov 2019 compared to Jan 2020 – Nov 2020
4. Source: Google Analytics – Organic traffic to Zscaler.com from Jan 2019 – Nov 2019 compared to Jan 2020 – Nov 2020

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# 10 Years Of Leadership Culminates In Being The Only Leader

## 2020 Gartner MQ for Secure Web Gateways

Secure Web Gateway is the foundation of SASE

Most complete vision and highest ability to execute

Zscaler Zero Trust Exchange accelerates secure digital transformation



Source: Gartner (December 2020)

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# Customer Interest in Zscaler is Outpacing Legacy Providers

## Customer Searches on Gartner.com
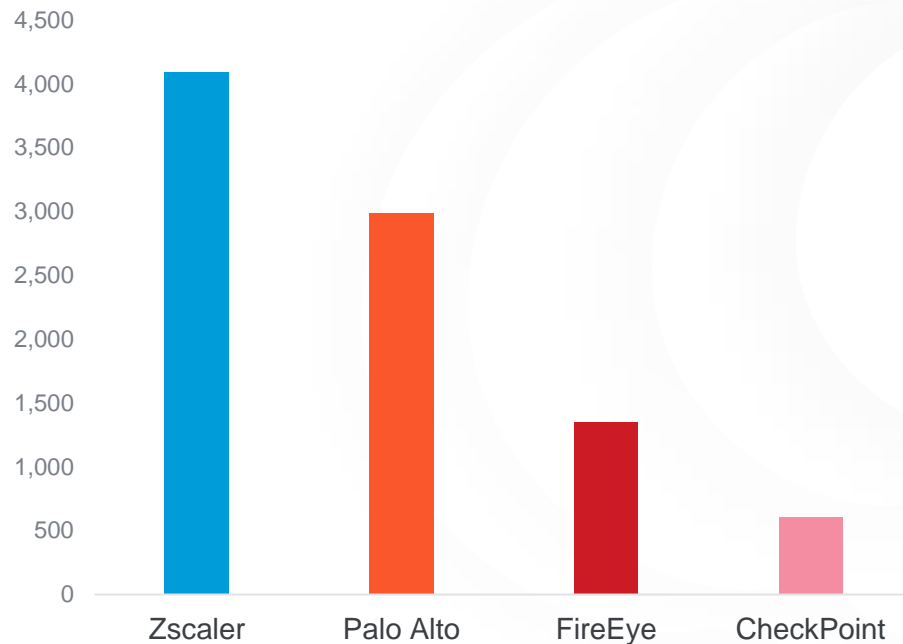


Source: Gartner.com – 2020 Year to date as of December 20th 2020

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# Demand Gen Efficiency Gains with Specialization by Segment

## Specialization Increases the ROI associated with Marketing Sourced Pipeline

**Majors & Large Enterprise**

| | |
|---|---|
| **Message** | Secure Digital Transformation |
| **Tactics** | Account Based Marketing<br>CXO Programs<br>Transformation Workshops |
| **GTM** | High Touch Direct Sales<br>Global System Integrators<br>Service Providers |

**Momentum is Accelerating**
- Increase in new business meetings
- Increase in average deal size
- Expanded the team

**Enterprise**

| | |
|---|---|
| **Message** | Cloud Security Adoption |
| **Tactics** | Lead generation<br>Sales appointment setting<br>Channel marketing programs |
| **GTM** | Medium Touch Direct Sales<br>Value Added Reseller<br>Managed Service Providers |

**Segment focus is delivering**
- 47% Y/Y increase in leads[1]
- New Partner Marketing Funds
- Planned increase in resources to qualify marketing leads

1.  Source: Zscaler – Marketing Qualified Lead growth from Q1 FY20 to Q1 FY21

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# Extending Customer Loyalty to Increase Influence

**CXO Engagement**

- CXO Summits & Networking
- Value Creation Analysis
- Executive Insights
- Quarterly Business Reviews

**Impact**

- Increase Upsell
- Reduce Churn
- Thought Leadership
- Peer Introductions

**Results**

- **42** — G2K CXO Speakers at Zenith Live 2020
- **122%** — Net Retention Rate
- **76** — Net Promoter Score

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# Key Takeaways

**01** The amplification of **our brand promise is resonating** and helping to get more 'at bats'

**02** Our demand gen execution is more sophisticated by segment resulting in **more productive campaigns**

**03** Our **strong relationships with CXOs** is a competitive differentiator and is opening more doors
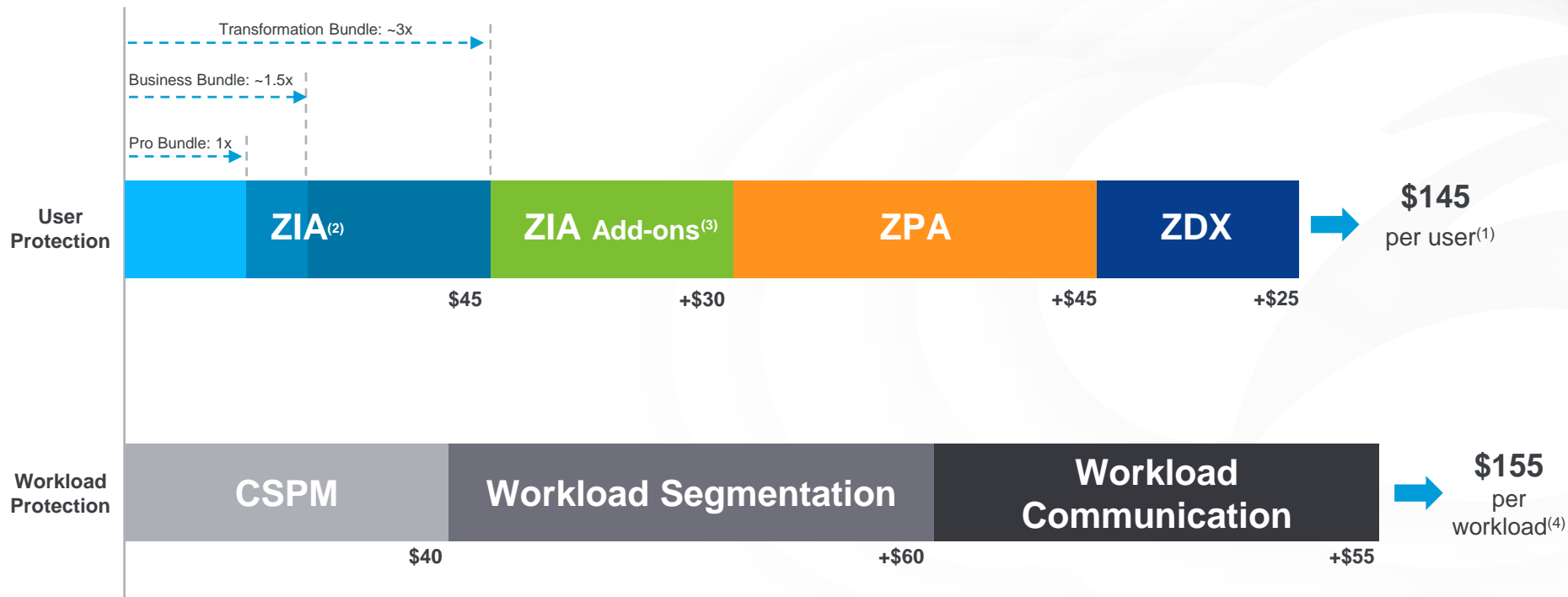
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Q&A

———

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# Investing for Growth
# In Large Serviceable Market

Remo Canessa, CFO

# Annual Pricing Model Provides Significant Expansion Opportunities



Transformation Bundle: ~3x

Business Bundle: ~1.5x

Pro Bundle: 1x

**User Protection**

| ZIA[2] | ZIA Add-ons[3] | ZPA | ZDX | → **$145** per user[1] |

$45          +$30          +$45          +$25

**Workload Protection**

| CSPM | Workload Segmentation | Workload Communication | → **$155** per workload[4] |

$40          +$60          +$55

1) Per user pricing for individual products is effective annual prices to Zscaler for customers of 5,000 seats (also referred to as ARPU, or average revenue per user), except for new products including API CASB, Browser Isolation and ZDX, where we calculate ARPU based on closed deals with high volume purchases.
2) ZIA Professional Bundle includes Secure Web Gateway. Business Bundle includes all Professional Bundle functionality, plus SSL inspection, Advanced Threat Protection, inline Cloud Application Control, Bandwidth Control, and more. Transformation Bundle includes all Business Bundle functionality, plus Cloud Sandbox and Cloud Firewall.
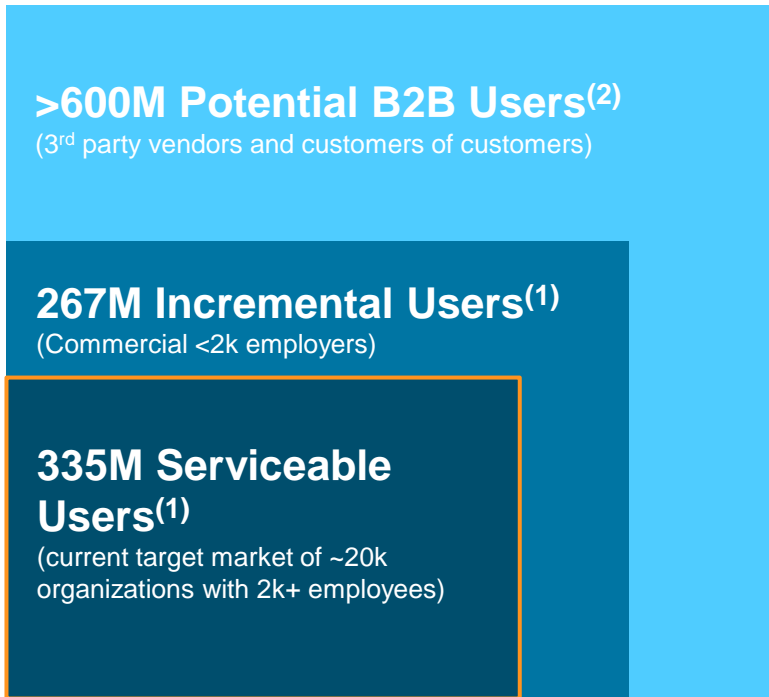3) ZIA Add-ons include Data Loss Prevention, Exact Data Match, API CASB and Browser Isolation.
4) Per workload pricing applies to Zscaler Cloud Protection (ZCP) products, including CSPM, Workload Segmentation and Workload Communication.
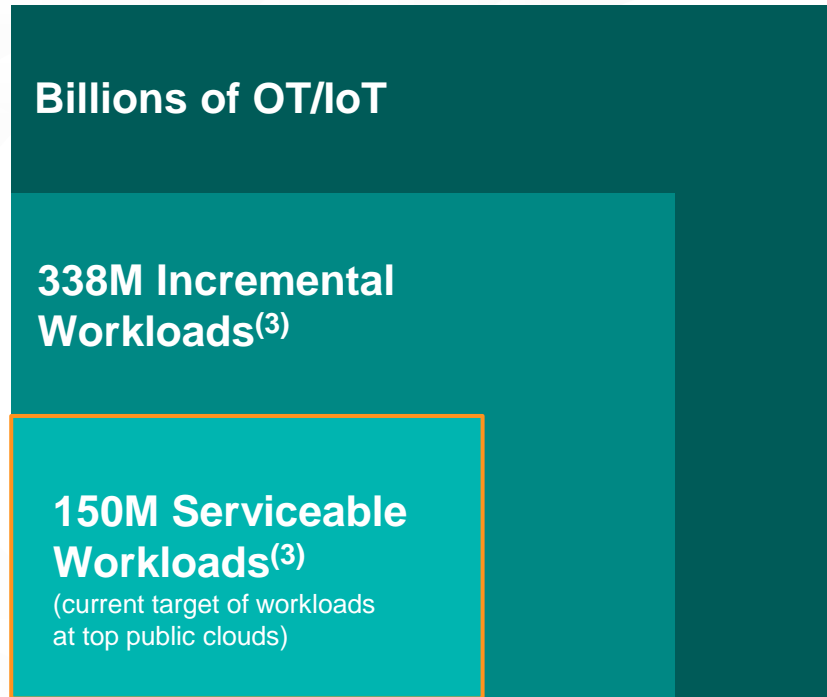As ZCP products have been available for a short period of time, pricing per workload is effective annual prices to Zscaler in closed deals with high volume purchases, as well as Zscaler's estimate for current deals in progress.

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# Serviceable Users of 335M and Serviceable Workloads of 150M

## Users

> **>600M Potential B2B Users[2]**
> (3rd party vendors and customers of customers)

**267M Incremental Users[1]**
(Commercial <2k employers)

**335M Serviceable Users[1]**
(current target market of ~20k organizations with 2k+ employees)

## Workloads & OT/IOT devices

**Billions of OT/IoT**

**338M Incremental Workloads[3]**

**150M Serviceable Workloads[3]**
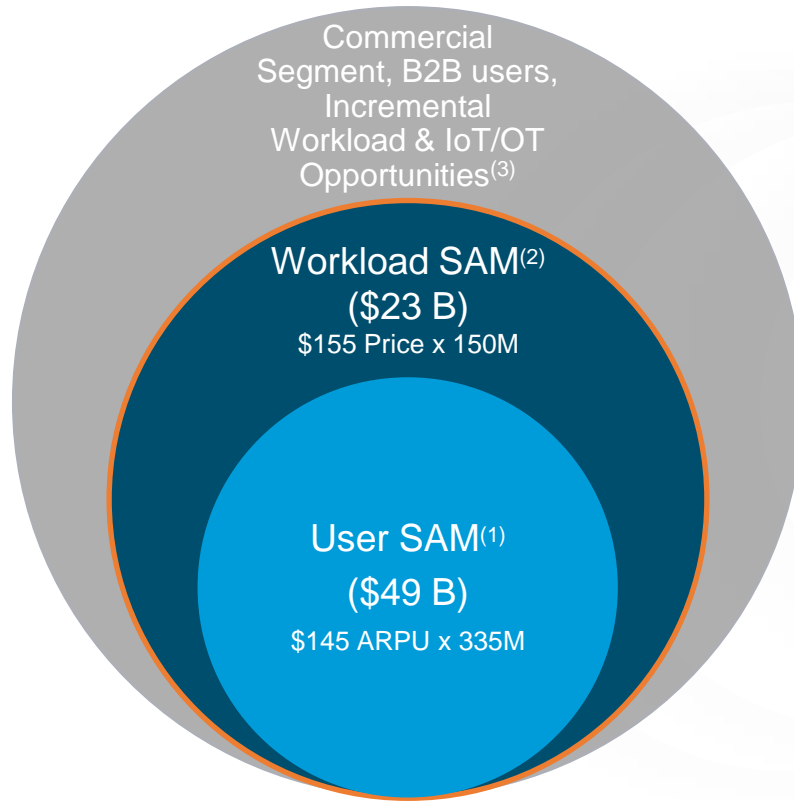(current target of workloads at top public clouds)

1) Based on Zscaler's analysis of worldwide organization and employee data from ZoomInfo.
2) Zscaler's estimate of potential B2B Users is based on assuming a similar number of users as total worldwide workforce. We consider B2B users to include third-party vendors and customers of our customer.
3) Based on Zscaler's analysis of workload market forecast for 2020 from 650 Research.

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# Serviceable Market of $72 Billion, plus Bigger Long-term Opportunity

Commercial Segment, B2B users, Incremental Workload & IoT/OT Opportunities[3]

Workload SAM[2]
($23 B)
$155 Price x 150M

User SAM[1]
($49 B)
$145 ARPU x 335M

Our $72 billion core serviceable opportunity, comprised of:
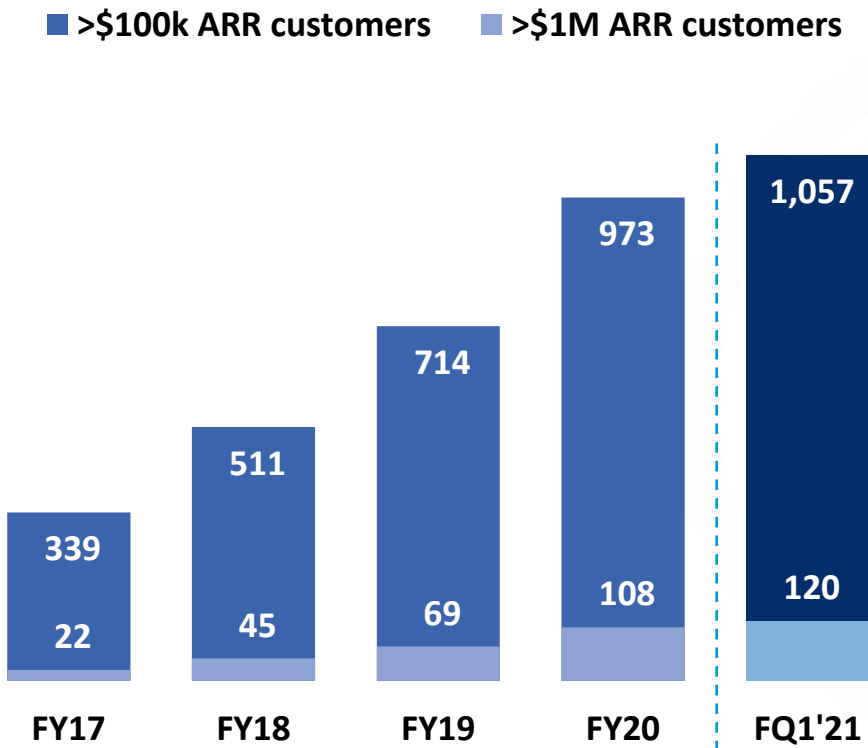
- $49 billion user SAM focused on enterprises with 2k+ employees

- $23 billion workload SAM for workloads in top public clouds

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# Broader Platform Adoption Amongst Our $100k+ ARR customers

**■ >$100k ARR customers**　　**■ >$1M ARR customers**

% of $100k+ ARR customers that purchased the following products[1]:



| | FY17 | FY18 | FY19 | FY20 | FQ1'21 |
|---|---|---|---|---|---|
| >$100k ARR customers | 339 | 511 | 714 | 973 | 1,057 |
| >$1M ARR customers | 22 | 45 | 69 | 108 | 120 |

**Count of customers with Transformation**
- FY17: 16%
- FY18: 27%
- FY19: 35%
- FY20: 40%
- FQ1'21: 42%

**Count of customers with Data Protection**
- FY17: 5%
- FY18: 12%
- FY19: 18%
- FY20: 20%
- FQ1'21: 21%

**Count of customers with ZPA**
- FY17: 3%
- FY18: 17%
- FY19: 27%
- FY20: 40%
- FQ1'21: 43%
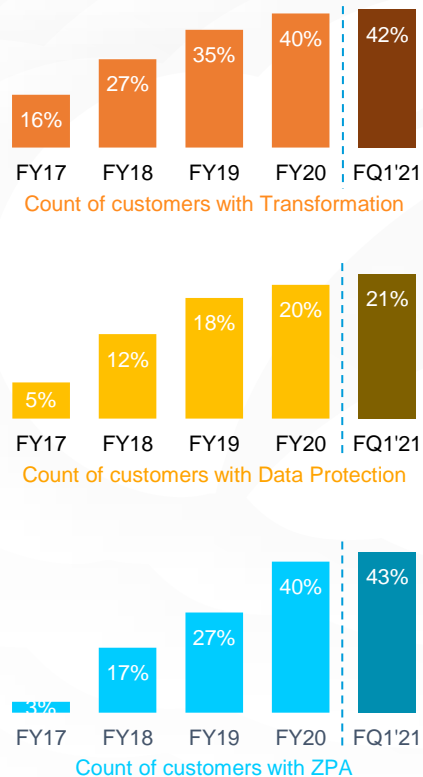
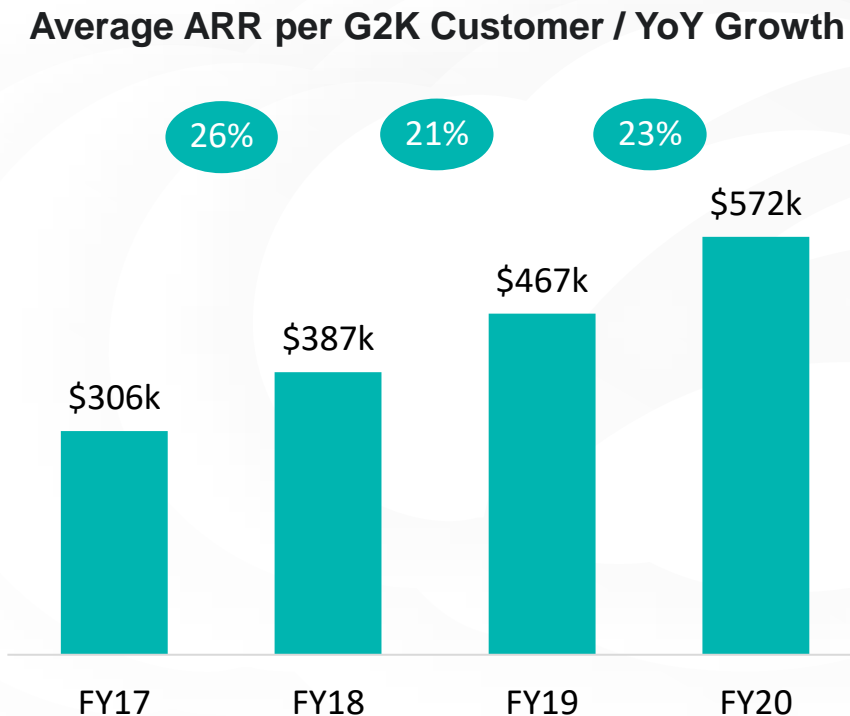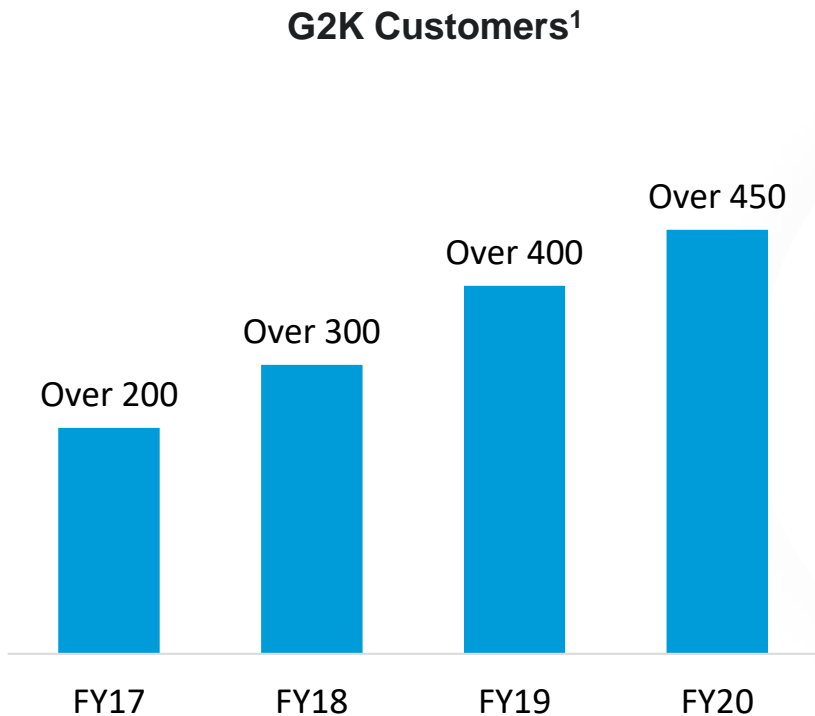1) Product adoption charts are not drawn in exact proportion to each other.
   Transformation Bundle includes Secure Web Gateway, SSL inspection, Advanced Threat Protection, inline Cloud Application Control, Bandwidth Control, Cloud Sandbox and Cloud Firewall.
   Data Protection includes DLP, Exact Data Match, Out-of-band CASB, and ZIA Browser Isolation.

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# Continued Addition of G2K Customers

## G2K Customers[1]



- FY17: Over 200
- FY18: Over 300
- FY19: Over 400
- FY20: Over 450

## Average ARR per G2K Customer / YoY Growth



- FY17: $306k
- FY18: $387k (26%)
- FY19: $467k (21%)
- FY20: $572k (23%)
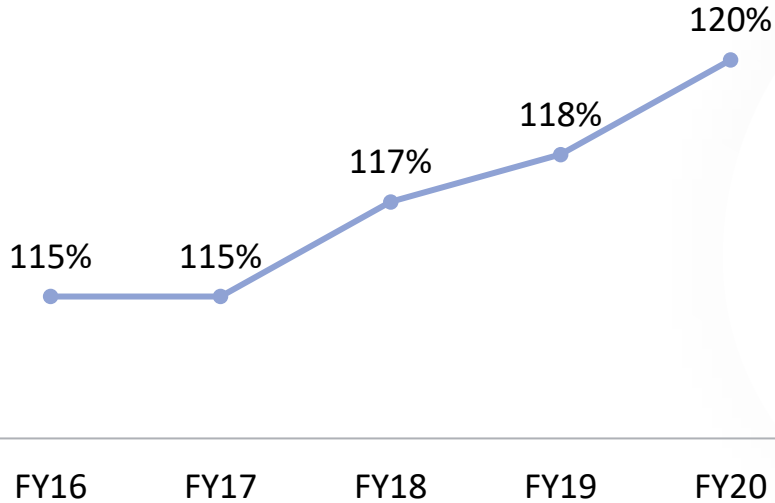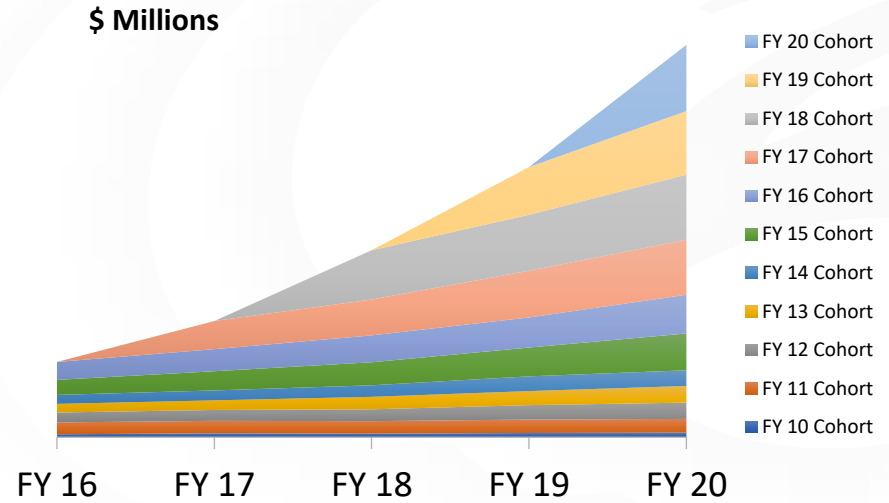
1) For fiscal year ending July 31.  Each of our fiscal year G2K metrics are complied and calculated based on the latest Forbes Global 2000 list available at the time.
For example, FY19 and FY20 metrics are based on Forbes Global 2000 list published in May 2019 and May 2020, respectively.  Membership in Forbes Global 2000 list can vary each year.

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# Land and Expand with Very Strong Upsell Drives Strong NRR

## NRR[1] by Fiscal Years



- FY16: 115%
- FY17: 115%
- FY18: 117%
- FY19: 118%
- FY20: 120%

## ARR by Cohorts

$ Millions



Legend:
- FY 20 Cohort
- FY 19 Cohort
- FY 18 Cohort
- FY 17 Cohort
- FY 16 Cohort
- FY 15 Cohort
- FY 14 Cohort
- FY 13 Cohort
- FY 12 Cohort
- FY 11 Cohort
- FY 10 Cohort

X-axis: FY 16, FY 17, FY 18, FY 19, FY 20

1) Dollar-based net retention rate (NRR) is calculated as follows:
*Denominator:* To calculate our dollar-based net retention rate as of the end of a reporting period, we first establish the annual recurrent revenue ("ARR") from all active subscriptions as of the last day of the same reporting period in the prior fiscal year. This effectively represents recurring dollars that we expect in the next 12-month period from the cohort of customers that existed on the last day of the same reporting period in the prior fiscal year.
*Numerator:* We measure the ARR for that same cohort of customers representing all subscriptions based on confirmed customer orders booked by us as of the end of the reporting period.

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# Key Metrics Tracking Favorably

|  | FY18 | FY19 | FY20 | FQ1'21 |
|---|---|---|---|---|
| **Billings Growth**<br>% Y/Y Growth | 65% | 51% | 41% | 64% |

**New vs Upsell**
% of Net New ACV
- New
- Upsell

| FY18 | FY19 | FY20 | FQ1'21 |
|---|---|---|---|
| New 60% / Upsell 40% | New 51% / Upsell 49% | New 46% / Upsell 54% | New 52% / Upsell 48% |

**Broader Platform Adoption**
ZPA as % of Net New ACV
- ZPA
- ZIA and others

| FY18 | FY19 | FY20 | FQ1'21 |
|---|---|---|---|
| ZPA 10% / ZIA and others 90% | ZPA 14% / 86% | ZPA 29% / 71% | ZPA 27% / 73% |

**Strong International Presence**
% of Revenue
- APJ
- EMEA
- Americas

| FY18 | FY19 | FY20 | FQ1'21 |
|---|---|---|---|
| APJ 8% / EMEA 44% / Americas 48% | APJ 8% / EMEA 41% / Americas 51% | APJ 9% / EMEA 40% / Americas 51% | APJ 10% / EMEA 39% / Americas 51% |

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# Investing for Growth to Capture Large Opportunity

Non-GAAP expenses[1] as % of revenue



**115%**

**FY17**
- 22% (COGS)
- 61% (Sales & Marketing)
- 22% (R&D)
- 11% (G&A)

**108%**

**FY18**
- 20% (COGS)
- 59% (Sales & Marketing)
- 19% (R&D)
- 11% (G&A)

**92%**

**FY19**
- 19% (COGS)
- 48% (Sales & Marketing)
- 15% (R&D)
- 9% (G&A)

**93%**

**FY20**
- 20% (COGS)
- 49% (Sales & Marketing)
- 15% (R&D)
- 9% (G&A)

100% reference line

## Key factors

| | |
|---|---|
| **COGS** | Scale of our multi-tenant cloud benefits COGS |
| **Sales & Marketing** | Accelerated investments for long-term leverage |
| **R&D** | Global centers in Silicon Valley & India |
| **G&A** | Significant presence in India |

Building sales team to drive growth and penetration

Ramping marketing efforts to build brand and create demand

Investing in R&D to enhance functionality

1)  Non-GAAP expenses exclude stock-based compensation expenses, amortization of debt discount, certain litigation-related expenses, asset impairment related to facility exits and amortization expense of acquired intangible assets. Refer to the GAAP to non-GAAP reconciliation in Appendix A

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5 Minute Break

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Q&A

# Appendix

# Explanation of Non-GAAP Financial Measures

In addition to our results determined in accordance with generally accepted accounting principles in the United States of America ("GAAP"), we believe that the presentation of non-GAAP financial information provides important supplemental information to management and investors regarding financial and business trends relating to our financial condition and results of operations. However, non-GAAP financial information is presented for supplemental informational purposes only and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Investors are cautioned that there are a number of limitations associated with the use of non-GAAP financial measures and key metrics as analytical tools. Investors are encouraged to review these reconciliations, and not to rely on any single financial measure to evaluate our business.

*Expenses Excluded from Non-GAAP Measures*

Stock-based compensation expense is excluded primarily because they are non-cash expenses that management believes are not reflective of our ongoing operational performance. Effective August 1, 2020, the beginning of our fiscal year ending July 31, 2021, we have presented employer payroll taxes related to employee equity award transactions, which is a cash expense, as part of stock-based compensation expense in our non-GAAP results. These payroll taxes have been excluded from our non-GAAP results as these are tied to the timing and size of the exercise or vesting of the underlying equity awards and the price of our common stock at the time of vesting or exercise, which may vary from period to period independent of the operating performance of our business. Prior period amounts have been recast to conform with the current period presentation. Amortization expense of acquired intangible assets is excluded because these are considered by management to be outside of our core business operating performance. Asset impairments related to facility exit costs are excluded because such charges are not reflective of our ongoing operational performance. Amortization of debt discount and issuance costs from the convertible senior notes is excluded because they are non-cash expenses and are not reflective of our ongoing operational performance. We also exclude certain litigation-related expenses consisting of professional fees and related costs incurred by us in defending against significant claims that we deem not to be in the ordinary course of our business and, if applicable, actual losses and accruals related to estimated losses in connection with these claims. There are many uncertainties and potential outcomes associated with any litigation, including the expense of litigation, timing of such expenses, court rulings, unforeseen developments, complications and delays, each of which may affect our results of operations from period to period, as well as the unknown magnitude of the potential loss relating to any lawsuit, all of which are inherently subject to change, difficult to predict and could adversely affect our results of operations. We estimate the tax effect of these items on our non-GAAP results and may adjust our GAAP provision for income taxes, if such effects have a material impact to our non-GAAP results.

*Key Non-GAAP Financial Measures Included within this Presentation:*
- Non-GAAP Gross Profit and Non-GAAP Gross Margin (*)
- Non-GAAP Income from Operations and Non-GAAP Operating Margin (*)
- Free Cash Flow and Free Cash Flow Margin (*)

(*) Non-GAAP to GAAP reconciliations shown on the following slides.

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# Appendix A: Non-GAAP to GAAP reconciliation

($ in thousands)

| | FY'20 | | | | | | | | Q1 FY'21 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Non-GAAP | Stock-based comp. expense | Amortization of acquired intangible assets | Litigation-related expenses | Asset Impairment related to facility exit | Amortization of debt discount and issuance costs | Income tax expense effects | GAAP | Non-GAAP | Stock-based comp. expense | Amortization of acquired intangible assets | Litigation-related expenses | Asset Impairment related to facility exit | Amortiztion of debt discount and issuance costs | Income tax expense effects | GAAP |
| Revenue | $ 431.269 | | | | | | | $ 431.269 | $ 142,578 | | | | | | | $ 142,578 |
| YOY Growth | 42 % | | | | | | | 42 % | 52 % | | | | | | | 52 % |
| Cost of revenue | 86,385 | 7,318 | 2,030 | | | | | 95.733 | 26,957 | 3,266 | 1,504 | | | | | 31,727 |
| Gross Profit | 344.884 | (7.318) | (2,030) | | | | | 355.536 | 115,621 | (3,266) | (1,504) | | | | | 110,851 |
| Gross Margin | 80 % | | | | | | | 78 % | 81 % | | | | | | | 78 % |
| Sales and marketing | 211,368 | 66,539 | 74 | | | | | 277.981 | 64,162 | 32,654 | 73 | | | | | 96,889 |
| % of revenue | 49 % | | | | | | | 64 % | 45 % | | | | | | | 68 % |
| Research and development | 66,426 | 15,090 | 1,280 | | | | | 97,879 | 20,870 | 14,900 | | | | | | 35,770 |
| % of revenue | 15 % | | | | | | | 23 % | 15 % | | | | | | | 25 % |
| General and administrative | 37,165 | 17,365 | | 18,356 | 746 | | | 73,632 | 10,934 | 9,509 | | | 416 | | | 20,859 |
| % of revenue | 9 % | | | | | | | 17 % | 8 % | | | | | | | 15 % |
| Total operating expenses | 314.959 | 114.077 | 1.354 | 18.356 | 0.746 | | | 449,492 | 95,966 | 57,063 | 73 | — | 416 | | | 153,518 |
| % of revenue | 73 % | | | | | | | 104 % | 67 % | | | | | | | 108 % |
| Income (loss) from operations | 29,925 | (121,395) | (3,384) | (18,356) | (746) | | | (113,956) | 19,655 | (60,329) | (1,577) | | (416) | | | (42,667) |
| Operating margin | 7 % | | | | | | | (26)% | 14 % | | | | | | | (30)% |
| Interest income | 6,477 | | | | | | | 6,477 | 940 | | | | | | | 940 |
| Interest expense | (140) | | | | | (4,885) | | (5,025) | (359) | | | | | (12,690) | | (13,049) |
| Other income (expense), net | (224) | | | | | | | (224) | 268 | | | | | | | 268 |
| Provision for income taxes | (3,498) | | | | | | 1,110 | (2,388) | (498) | | | | | | | (498) |
| Net income (loss) | $ 32,540 | $ (121,395) | $ (3,384) | $ (18,356) | $ (746) | $ (4,885) | $ 1,110 | $ (115.116) | $ 20,006 | $ (60,329) | $ (1,577) | $ — | $ (416) | $ (12,690) | $ — | $ (55,006) |

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# Appendix A: Non-GAAP to GAAP reconciliation

($ in thousands)

| | | FY'20 | | Q1 FY'21 |
|---|---|---|---|---|
| Free cash flow | $ | 27,508 | $ | 42,227 |
| Revenue | | 431,269 | | 142,578 |
| Free cash flow margin | | 6 % | | 30 % |
| | | | | |
| Net cash provided by operating activities | $ | 79,317 | $ | 53,532 |
| Less: Purchases of property, equipment and other assets | | (43,072) | | (8,904) |
| Less: Capitalized internal-use software | | (8,737) | | (2,401) |
| **Free cash flow** | **$** | **27,508** | **$** | **42,227** |
| Net cash provided by operating activities, as a percentage of revenue | | 18 % | | 38 % |
| Less: Purchases of property, equipment and other assets, as a percentage of revenue | | (10)% | | (6)% |
| Less: Capitalized internal-use software, as a percentage of revenue | | (2)% | | (2)% |
| **Free cash flow margin** | | **6 %** | | **30 %** |

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Speaker Profiles
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# Jay Chaudhry, CEO, Chairman and Founder

Jay is an accomplished entrepreneur, having founded a series of successful companies, including AirDefense, CipherTrust, CoreHarbor, SecureIT, and Zscaler, now a public company as of March 16, 2018.

Jay has a history of introducing visionary innovations to market that address the demand for securely enabling emerging technology trends, such as the Zscaler global security cloud for distributed and mobile enterprises. Jay's considerable work in the security technology sector has made him a trusted advisor for many enterprise CIOs and CISOs.

Jay leverages more than 25 years of security industry expertise, including engineering, sales, marketing and management experience with leading organizations, such as IBM, NCR and Unisys. Prior to founding Zscaler in 2008, he founded and led AirDefense, a wireless security pioneer, before its acquisition by Motorola. From 2000 to 2006, Jay founded and led CipherTrust, the industry's first email security gateway, before its merger with Secure Computing. He also founded and led CoreHarbor, a managed ecommerce solution, before it was acquired by USi/AT&T. In 1996, Jay founded and led his first company, SecureIT, the first pure-play Internet security service, before it was acquired by VeriSign in 1998.

Jay has been honored as an Ernst & Young "Entrepreneur of the Year (Southeast USA)," an Information Week "Innovator & Influencer", an SC Magazine "Market Entrepreneur", an IIT BHU "Distinguished Alumnus" and a Goldman Sachs "100 Most Intriguing Entrepreneurs." He earned his MBA in Marketing, MS in Computer Engineering and MS in Industrial Engineering – all from the University of Cincinnati. He earned his Bachelor of Technology in Electronics Engineering from IIT BHU Varanasi. Jay has completed the Executive Management Program from Harvard Business School.

# Amit Sinha, Ph.D, President of R&D, Ops & Customer Service, CTO

Dr. Amit Sinha is a skilled entrepreneur and technology leader who has driven the research and development of disruptive security and wireless technologies at both start-ups and market-leading organizations. Prior to Zscaler, Dr. Sinha served as CTO for Motorola's enterprise networking and communications business, which he joined via its acquisition of AirDefense where he held the same role. He has also served as Chief Technologist at Engim, which he co-founded.

Amit earned an MS and PhD in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology, and a B.Tech. in Electrical Engineering from the Indian Institute of Technology, Delhi, where he graduated summa cum laude and was awarded the President of India Gold Medal. He holds 27 US patents and has contributed to several books and dozens of conference and journal papers.

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# Patrick Foxhoven, CIO & EVP of Emerging Technologies

Patrick Foxhoven is an experienced and innovative managed security entrepreneur and technologist, having spent 20 years building secure and scalable Internet-enabled networks while co-authoring three books on information security and receiving multiple patents. He is currently Chief Information Officer & Vice President of Emerging Technologies at Zscaler.

Prior to joining Zscaler in 2010, he was a founder and CIO of CentraComm, a leading managed IT security and services provider, and served earlier as an owner and principal network engineer of Friendly Net, an early residential ISP in the midwest United States.

# Dali Rajic, President Go-To-Market and Chief Revenue Officer



Dali Rajic is a progressive cloud leader with nearly 25 years of experience in sales leadership and go-to-market operational roles. Mr. Rajic has worldwide responsibility for all aspects related to revenue growth and go-to-market strategy. His 25-year career includes seven-plus years in leadership roles with AppDynamics, most recent as Chief Customer and Revenue Officer. He played a significant role in AppDynamics' rapid ascent to market leader. Prior to joining AppDynamics, Mr. Rajic held several senior sales leadership positions at BMC Software and Verint. His extensive leadership and cloud experience include building multidimensional go-to-market models, designing end-to-end customer success lifecycle programs, as well as scaling value and metrics-based enterprise sales models for direct and partner sales.

Mr. Rajic has earned an MBA, Financial and Strategic Management from Northwestern University, and a Bachelor of Science, International Marketing from California State Polytechnic University, Pomona.

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# Chris Kozup, Chief Marketing Officer

Chris Kozup is a proven marketing executive with 20+ years of experience across all domains of enterprise technology marketing. He has held senior leadership roles at a wide range of successful companies, from multi-billion-dollar organizations to earlier-stage growth companies. At Zscaler, Chris is responsible for global marketing strategy and execution.

Chris was most recently CMO at Aruba, a Hewlett Packard Enterprise company, where he was responsible for the strategy and execution of global marketing, implementing scalable and sustainable marketing systems for awareness, digital demand generation, sales enablement, channel marketing, and community. He has also steered marketing teams at high-tech leaders such as Nutanix and Cisco. Earlier in his career, Chris was an industry analyst at the META Group, responsible for advising enterprise organizations on IT best practices. Chris holds a Bachelor of Arts from Ohio University and a Master of Business Administration from IE Business School in Spain.

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# Remo Canessa, Chief Financial Officer

Remo Canessa is a recognized industry leader with more than 30 years of financial management experience in both public and private technology companies, including 15 years as CFO at category-leading security and network infrastructure companies. Mr. Canessa has served as our chief financial officer since February 2017.

Mr. Canessa's 30-year career includes 11 years as CFO at infrastructure leader Infoblox, where he led that company through a successful IPO in 2012, and three years as CFO at Netscreen, where he completed a successful IPO and sale of the company to Juniper Networks. His breadth of experience includes strategic planning, financial planning and analysis, investor relations, corporate finance, and treasury. Mr. Canessa has a bachelor's degree in Economics from UC Berkeley and an MBA from Santa Clara University.

# Bill Choi, SVP, Investor Relations & Strategic Finance

Bill is a Strategic Finance and Investor Relations leader with nearly 25 years of finance experience in corporate finance and capital markets roles. Bill is responsible for IR messaging, financial communications, and long-term financial planning.

Bill joined Zscaler in 2017 to prepare the company for its initial public offering and to establish its IR program. Prior to making the transition to investor relations, Bill spent over 20 years leading and building technology sector research practices at various investment banks including Jefferies, Janney, Merrill Lynch, and PaineWebber. Bill specialized in thought-leadership research across high-growth companies in networking, hardware, infrastructure software and cybersecurity industries. Bill is currently on the board of the National Investor Relations Institute's (NIRI) Silicon Valley chapter. Bill graduated with honors from the Wharton School of the University of Pennsylvania, with a concentration in finance and management. Bill is a CFA Charterholder.

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